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URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

APRIL 11, 1989

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URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS

TUESDAY, APRIL 11, 1989

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:16 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, MARCH 17, 1989

SUBCOMMITTEE ON TRADE #6
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a series of public hearings on the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) Multilateral Trade Negotiations. The initial hearing will be held on Tuesday, April 11, 1989, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m. At this initial hearing, the U.S. Trade Representative, Ambassador Carla A. Hills, will be the leadoff witness on behalf of the Administration. Additional hearing dates will be announced later, as necessary, to receive testimony from private-sector witnesses.

The purpose of these hearings is to oversee the status, progress, and policy issues in the various subject areas of these negotiations. Ambassador Hills will focus in particular on the outcome of the April 5-6 meeting of the Trade Negotiations Committee, at the senior officials level, in Geneva, Switzerland, in seeking to reach agreement on four outstanding issues unresolved in the Montreal Mid-Term Review last December--agriculture, intellectual property, textiles, and safeguards--and the implications of these results for future developments in the Round. The Subcommittee is also interested in the views of the private sector on U.S. negotiating objectives and priorities, the operation of the private-sector advisory committees, and on the relationship of the multilateral negotiations with bilateral initiatives and the application of U.S. trade laws.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler or Diane Kirkland [telephone (202) 225-1721] by close of business Thursday, April 6, 1989. The telephone request must be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

(MORE)

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearings. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statement to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statement by the close of business Friday, April 28, 1989, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearings wish to have their statement distributed to the press and the interested public, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearings.

SEE FORMATTING REQUIREMENTS BELOW:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

Chairman GIBBONS. Good morning, ladies and gentlemen. This is, as everyone knows, a meeting of the Subcommittee on Trade of the Committee on Ways and Means, and we are here this morning to hear from the U.S. Trade Representative, Ambassador Carla Hills, who will report on the recent developments in the Uruguay Round.

As everyone here knows, the Uruguay Round is, roughly, in terms of time, half over. We expect to have it wound up by the end of 1990. As everyone who has ever experienced any trade negotiations realizes, decisions are made as you go along, but usually not announced until somewhere near the end of the negotiation. These decisions are made in people's minds about what they are going to do, and a part of the negotiation process is suppressing those until the appropriate time to make public announcement and consolidate the gains that you have made.

This is the largest, most ambitious round of negotiations mankind has ever undertaken in the area of commerce, covering not only goods but services, intellectual property rights, agriculture, and a host of other subjects.

It is going to take a tremendous amount of skill, and of good will to successfully complete this negotiation, and as a part of our oversight operation we have asked Mrs. Hills to come here this morning to talk about the progress that has been made to date.

We realize you have not been on the job a long time, and we realize, Mrs. Hills, that some of your staff is still missing somewhere between the White House and the Senate. We hope that that will be corrected soon. We are here to work with you, though, and you may proceed as you wish.

Do any other members have statements they would like to make before we listen to——

[No response.]

Chairman GIBBONS. Thank you very much. Go right ahead.

STATEMENT OF HON. CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you, Mr. Chairman. I welcome the opportunity to meet with this committee. I have filed a full written testimony with the committee, and with your permission I would summarize what I have filed.

Chairman GIBBONS. Fine. Thank you, ma'am. Without objection, your entire statement will be made a part of the record.

Ambassador HILLS. Thank you. Your hearing today is timely because of the success achieved last week in Geneva. On Saturday, delegates from over 100 nations ratified 15 negotiating texts which established the framework for the final stages of negotiation on the full range of subjects included in the Uruguay Round. We are now well positioned to undertake, in earnest, the final hard bargaining which will determine whether the Uruguay Round succeeds.

As a result of last week, I am encouraged that others besides the United States are serious about this process, and I am optimistic about the chances for success.

We now need to quicken the pace of our work in Geneva, if we are to keep to the 1990 deadline that as you mentioned will conclude the negotiations. We also need to intensify our consultations

with you, other committees of Congress, and the private sector, so that the proposals of the United States tabled in Geneva have been developed only after full consideration of the views of all interested parties.

Let me summarize for you the results of the midterm review just concluded. You will recall that the midterm review was originally scheduled to conclude with a meeting of trade ministers last December in Montreal. Agreement was reached in 11 out of the 15 negotiating areas. Disagreements arose, however, in 4 negotiating areas—agriculture, intellectual property, textiles, and safeguards—leading the ministers to put all of the results agreed from the other 11 negotiating groups on hold until the differences in the 4 disputed negotiating texts were resolved.

Last week, this impasse was broken. We reached an agreement in each of the four framework areas. The language adopted in these areas both protects our basic interests and commits our partners to a meaningful negotiating process.

The agreement on agriculture lays out the scope and the process for the negotiations to take place over the next 18 months. The long-term objective is to provide for substantial progressive reductions in agricultural support and protection which will result in correcting and preventing restrictions and distortions in world agricultural markets. All measures which directly or indirectly affect import access and export competition are to be put on the table for negotiation.

By December 1989, the long-term objectives will be advanced by having the participants put forth their proposals.

They will also submit their proposals to harmonize sanitary and phytosanitary regulations to improve the multilateral dispute settlement process in this regard as well.

Ministers agreed to begin implementation of long-term reform in 1991.

They also agreed to hold overall domestic and export support and protection during 1990 at or below current levels existing in 1989.

By October of this year, ministers will provide specifics on their intended reductions in support and protection levels for 1990.

The agreement governing intellectual property rights determined that the negotiation is to cover the establishment of adequate and effective standards for the protection of intellectual property rights, effective means for enforcement of such standards, and effective and expeditious dispute settlement procedures.

We can now proceed to negotiate an agreement covering all areas of major concern to the United States. Patent protection for pharmaceuticals, copyright protection for sound recordings and computer software, trade secret protection for proprietary manufacturing processes, and effective enforcement to stop counterfeiting of trademarks and piracy of copyrighted materials such as books, motion pictures, and recordings.

The U.S. efforts have been strongly supported by the active participation of Members of Congress and of the private sector.

The textiles agreement calls for participants to begin negotiations later this month on avenues that could lead to the application of normal GATT rules to this sector, as we agreed in Punta del Este in 1986.

To integrate textiles and apparel into GATT we will need to strengthen the relevant GATT rules and disciplines. GATT Article XIX contains procedures to provide temporary import relief to domestic industries seriously injured by imports.

These provisions need to be clarified, and the framework for safeguards established a June deadline for the preparation of a draft text. We should not overlook the achievements earlier reached in the 11 other negotiating areas. For example, improvements in the dispute mechanism procedures of GATT; a framework that allows negotiations on tariff and nontariff measures; guidance on negotiating an agreement on trade and services; guidance on negotiating an agreement on trade-related investment measures; a procedure to introduce new discipline in the areas of subsidies and countervailing duties.

With your help, we intend to adhere to the deadline imposed on the negotiating groups. We have an ambitious agenda, and it is important that the Uruguay Round be concluded by December 31, 1990.

In sum, I am delighted to report to you that the Uruguay Round is once more advancing, and that this administration will spare no effort to work with you to achieve a result that significantly strengthens world trade rules.

I am pleased, Mr. Chairman, to answer any of your questions.

[The statement of Ambassador Hills follows:]

TESTIMONY OF AMBASSADOR CARLA A. HILLS

BEFORE THE SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ON OVERSIGHT OF THE URUGUAY ROUND
OF MULTILATERAL TRADE NEGOTIATIONS
APRIL 11, 1989

I welcome this opportunity to meet with the Committee to discuss the status of the Uruguay Round of Multilateral Trade Negotiations. Your hearing today is made more timely because of the success achieved last week in Geneva. On Saturday, delegates from over 100 countries ratified 15 negotiating texts which establish the framework for the final stage of negotiations on the full range of subjects included in the Uruguay Round. The approval of these texts concludes the Mid-Term Review begun in Montreal. I can honestly say, Mr. Chairman, that we are now well positioned to undertake in earnest the final, hard bargaining which will determine whether the Uruguay Round succeeds.

Having said that, however, I want to make it clear to you that we have a very long way to go in this process. The tough part lies ahead. And I want our trading partners to realize that there will be no final concessions from the United States in this Round unless others are similarly committed to substantial reform. Thus far, we have not bound ourselves to final agreements on most important issues. Rather, we have committed ourselves to a realistic negotiating program which can ultimately bring about reform in world trade rules. If others do not negotiate in good faith, it is unlikely the negotiations will result in final agreements that the United States will be able to sign. As a result of last week, however, I am encouraged that others besides the United States are serious about this process, and I am optimistic about the chances for success.

We now need to quicken the pace of our work in Geneva if we are to keep to our 1990 deadline for concluding the negotiations. We also need to intensify our consultations with the Congress and the private sector, so that U.S. proposals tabled in Geneva have been developed only after consideration of the views of all interested parties.

Let me summarize for you the results of the Mid-Term Review and then turn to a discussion of the upcoming timetable. The Mid-Term Review was originally scheduled to conclude with a meeting of trade ministers last December in Montreal. Agreement was reached in 11 out of 15 negotiating areas. Disagreements arose, however, in four negotiating areas--agriculture, intellectual property, safeguards and textiles--leading ministers to put the results agreed from the other 11 negotiating groups "on hold" until the Trade Negotiations Committee was able to work out differences in the four disputed negotiating texts.

The meetings last week were intended to break this impasse. From this perspective, I think we were quite successful. We reached agreements on all four framework texts. I believe that the language adopted in these areas both protects our basic interests and commits our partners to a meaningful negotiating process. Moreover, the Trade Negotiations Committee lifted its hold on the other 11 texts, thereby enabling negotiations to proceed on the full agenda of the Uruguay Round.

I believe that we have now achieved the objectives first set forth for the Mid-Term Review. These objectives were to:

(1) Achieve some "tangible" results that could be implemented prior to the conclusion of the Uruguay Round;

(2) Provide clear guidance on the issues to be negotiated; and

(3) Reaffirm the political will of governments to succeed by 1990 in all the negotiating areas.

Let me discuss in detail how these particular objectives were reached in the four areas negotiated last week.

AGRICULTURE

The agreement on agriculture lays out the scope and the process for the negotiations to take place over the next 20 months. The long term objective of these negotiations will be to provide for substantial progressive reductions in agricultural support and protection which will result in correcting and preventing restrictions and distortions in world agricultural markets. All measures which directly or indirectly affect import access and export competition are to be put on the table for negotiation during the final bargaining sessions. Prior to the end of this year, participants will advance proposals to achieve a fair and market-oriented agricultural trading system as well as proposed rules and disciplines to govern the new system. Participants will also submit by that time their proposals to harmonize sanitary and phytosanitary regulations and proposed methods for improving the multilateral dispute settlement process in this regard.

Ministers also agreed to begin implementation of the long-term reform in 1991.

For the short term (i.e., until the conclusion of the Round), there is agreement to hold overall domestic and export support and protection at or below current levels in 1989 with specific commitments on market access and support prices. By October of this year Ministers will provide specifics on their intended reductions in support and protection levels for 1990.

INTELLECTUAL PROPERTY

The agreement is significant because it resolved a key procedural difficulty that has hindered the negotiating group on Trade-Related Intellectual Property Rights (TRIPS) since its inception, that is, whether the negotiation is to cover the establishment of adequate and effective standards for the protection of intellectual property rights. The framework sets out clear guidance to negotiators that it does. In this regard, the text provides that negotiations towards a comprehensive agreement on TRIPS include not only adequate substantive intellectual property standards; but also effective means for enforcement of such standards; and effective and expeditious dispute settlement procedures.

Negotiations on intellectual property are a key component of the Uruguay Round for the United States. Our objective has been to address, through such an agreement, the distortions and impediments to international trade caused by the lack of adequate and effective protection of intellectual property rights around the world.

We can now proceed to negotiate an agreement covering all areas of major concern to the United States. This includes, for example, patent protection for pharmaceuticals and chemical products, copyright protection for sound recordings and computer software, trade secret protection for proprietary manufacturing processes and data, and effective enforcement to stop the counterfeiting of trademarks and piracy of copyrighted materials such as books, motion pictures and recordings. Economic losses due to inadequate protection amounted to an estimated $43-61 billion dollars in 1986 according to a 1988 study by the U.S. International Trade Commission.

The United States' efforts to advance these negotiations have been strongly supported by the active interest and participation of the Congress and the private sector. Due to these combined efforts, the awareness of the importance of adequate and effective protection of intellectual property rights has been increasing in the United States and abroad. Our insistence that this topic be addressed in the GATT is now supported by a significant number of our trading partners.

TEXTILES AND CLOTHING

The agreement, which recognizes the importance of textiles and apparel in the Uruguay Round, calls for participants to begin negotiations later this month on modalities (avenues) that could lead to the application of normal GATT rules to this sector, as agreed in Punta del Este in 1986.

However, in order to integrate textiles and apparel into GATT, we will need to strengthen the relevant GATT rules and disciplines. Negotiations in this area should contribute to the expansion of textile and apparel trade. All countries, developed and developing alike, are to contribute to this process.

SAFEGUARDS

GATT Article XIX contains procedures to provide temporary import relief to domestic industries seriously injured by imports. For many years, GATT Contracting Parties have recognized that the provisions of Article XIX need to be clarified.

The framework allows the work of this negotiating group to go forward without prejudging the position of the participants with respect to the major issues of the negotiation. The agreement establishes a June deadline for the preparation of a draft text which will serve as the basis for negotiations during the remainder of the Uruguay Round. Governments are encouraged to submit their own proposals as soon as possible, preferably by the end of April.

The framework stresses the importance of concluding a comprehensive agreement which establishes multilateral control over safeguard measures, including so-called "grey area measures", which are currently outside of multilateral control. The aim of the negotiation is either to bring such measures under multilateral discipline or to eliminate them.

The understandable focus during the past few months on the above four subjects has obscured the achievements reached at or before Montreal on the 11 other negotiating areas. I won't mention every group, but at Montreal we managed to achieve:

-- improvements to the dispute settlement procedures of GATT, an area of vital importance;

-- a framework that allows us to conduct the market access negotiations on tariffs and NTMs on a request/offer basis;

-- a multilateral package on tropical products of major concern to less developed countries;

-- a trade policy review mechanism to periodically examine the trade policies of GATT members;

-- guidance on negotiating an agreement on trade in services and development of a draft agreement by the end of the year;

-- guidance on negotiating an agreement on Trade-Related Investment Measures; and

-- a procedure to introduce new discipline in the areas of subsidies and countervailing duties.

We have used the time since Montreal on these subjects to position the United States for the final 20 months of the negotiating process. For example, the data base to support the market access negotiations is now being developed and we will hold public hearings next month to solicit specific advice about

items for inclusion in the initial U.S. request list for the reduction or elimination of foreign tariff and non-tariff measures. We will be prepared to submit our initial request list to our trading partners on specific market access issues on schedule, before the summer break.

With your help, we intend to adhere to the deadlines imposed on the negotiating groups and will push our partners to act accordingly. We have been consulting with your staff and the private sector advisory committees on all 15 subjects, and we are now exploring the different types of proposals we want to table in Geneva. We expect that other participants will also have their negotiating proposals on the table by the end of the year. We have an ambitious agenda, and it is important, given other initiatives underway, that the Uruguay Round be concluded by December 1990, as agreed.

In sum, I am delighted to report to you that the Uruguay Round negotiations are advancing once again after the successful outcome of the Mid-Term Review. We have much work to do and little time to waste. I want the Committee to know that I am committed to this effort and that this Administration will spare no effort to achieve a result that significantly strengthens world trade rules and furthers the economic interests of the United States. I hope that the Committee will continue to follow closely developments in the Uruguay Round and provide frequent guidance to us as we conclude these negotiations.

Chairman GIBBONS. Well, thank you, ma'am. Our staff who covered these negotiations while they were going on in Switzerland reports to us that your staff was extremely well prepared, that they handled their job with distinction, and that they were unfailingly nice to work with and cooperative.

And they especially said that Mr. Lavorel was an outstanding leader and had done a fine job in these very difficult times.

Ambassador HILLS. Mr. Chairman, the American people would be enormously proud of the team that the United States fielded in Geneva. It was, as you said, led by Warren Lavorel, and that team included Michael Hathaway, focusing primarily on intellectual property, Suzy Early, focusing primarily on agriculture, and Dorothy Dwoskin addressing many of the other areas, and our negotiators did a spectacular job.

Chairman GIBBONS. Mr. Jenkins, do you have questions?

Mr. JENKINS. Thank you, Mr. Chairman. Thank you for your testimony. In the field of agriculture, what is the general position of the European Community regarding the long-term objective of making agriculture market-oriented?

Ambassador HILLS. As you know, the European Community was not willing to agree to eliminate trade-distorting measures in agriculture when we met in Montreal; that has been a difficult point in the negotiations for them.

What the 96 nations have agreed to as our long-term goal is substantial progressive reductions in support and protection to correct and prevent distortions in world agricultural markets.

In my view that formula, over time, will lead us down to zero. This was a more acceptable formulation of our goal for the European Community.

Mr. JENKINS. What we will be negotiating is the amount of the reductions over the next few years?

Ambassador HILLS. All of these agreements are framework agreements which I would call an agenda for negotiations. For the long-term I have stated the goal, and all subsidies and protections are on the table for the agreed long-term reform. We will be having detailed negotiating proposals filed by all of the parties by the end of this year on import access, income support, and export competition, as to how each of the countries will accomplish the long-term goal of having substantial progressive reductions that correct and prevent distortions in agriculture.

Mr. JENKINS. Are these various points that were the subject matter of this agreement, where there have been difficulties—are they dependent upon—if we fail in agriculture, for instance, then I am assuming that our position will not be too favorable when it comes to textiles and clothing, or one of the other avenues that they are particularly interested in—other parts of the world.

Are these dependent upon the success of each of the other?

Ambassador HILLS. Absolutely. The negotiations are interlinked because some nations want reform in some areas, and other nations feel more keenly about reform in other areas. It is very difficult to have a worldwide negotiation without having the entire span of subjects addressed.

Mr. JENKINS. So, am I correct in assuming that if we are not successful in breaking the subsidies and the barriers as to agriculture

and intellectual property, that we will not be too prone to make an agreement upon bringing textiles and clothing under the normal rules of GATT?

Ambassador HILLS. We will need to have success in each of the 15 areas in order to have a successful Uruguay Round, and that we will need to negotiate trade distortions away in each of the areas in order to have a successful Uruguay Round.

But let me tell you: I am not speculating on failure, nor do we have a strategy for failure. I believe that there is so much good that can come from the Uruguay Round that it is imperative that the world's trading partners enter into serious and beneficial negotiations with a result that they will achieve a positive agreement.

Mr. JENKINS. Don't we always retain the option of walking away from the negotiations if there is not successful progress in agriculture or intellectual property rights?

Ambassador HILLS. Of course, but we will work with you and hope that we can achieve success.

Mr. JENKINS. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. On the question of our long-term objectives in agriculture, you state that the long-term is to provide for substantial progressive reductions and support and protection.

Are we looking, realistically, within a timeframe to the elimination of all kinds of agricultural supports, subsidies, quotas?

Ambassador HILLS. All protections are on the table for long-term reform, Mr. Crane, and we have not agreed to a timeframe. That is to say, there is no year specified in the framework agreement. But the long-term proposal is just as you stated—to achieve substantial progressive reductions that will correct and prevent distortions.

And we do have a work plan so that the participants at the Uruguay Round are expected, before the end of 1989, to put on the table what it is they intend to do in each of the areas that generate distortions—market access, export subsidy, and income supports.

Mr. CRANE. Would, say, the quotas that we import on sugar—would that be one of the earliest targets of concessions by the United States?

Ambassador HILLS. I cannot tell you what the forced ranking would be. Our short-term goal is not to raise these protections, but our long-term goal is to negotiate with respect to all of these protections. But it is not our intent to target any area unless our counterparts in other countries also commit to bring down their support measures in the particular area.

Mr. CRANE. The reason I raised this question is, it seems to me, often, that one committee in our Congress does not necessarily know what another committee's objectives are, and that, occasionally, we work at cross-purposes with one another.

Is there an effort in the administration to coordinate with other committees of jurisdiction—and I am thinking not just of quotas. You know, the price supports that we provide for agriculture, presumably, at some time, might come under review in these negotiations.

Even REA is a form of subsidy. Subsidized bank loans to the agricultural sector is another example. Not all of this, of course, falls

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under your jurisdiction, by any means. My only concern is that the various departments of jurisdiction work with the other committees, and that they have indicated some willingness to be cooperative if you can make a major breakthrough, say, with our European trading partners.

Ambassador HILLS. We try very hard to work with all relevant committees. I have testified and met privately with both Agricultural Committees—House and Senate.

I work very closely with the Secretary of Agriculture, who is extremely interested in this area, and who is keeping the Agricultural Committees well apprised. I have briefed the Economic Policy Council on three occasions, once with the President in attendance, so that all my Cabinet colleagues are well apprised. So I feel comfortable that we are doing our very best. But you underscore a very important point—that we have to work hard to keep communications open in both directions with all relevant committees of Congress, and with the private sector—that is, your constituents—so that we can understand and reflect those many and varied interests.

Mr. CRANE. I had the opportunity yesterday to meet with a South Korean delegation, and one of their concerns was agriculture for domestic political reasons. As I understand it, they have 20 to 25 percent of their population still on the farms, and industrialization is about a 25-year phenomenon with them.

I could sympathize with that, because with only 2 percent of our population still on our farms, there is a strong political block reflecting a farm interest here.

I am not sure that this is something that can be reconciled in less than a generation's time, trying to ease those people out of agricultural pursuits and other lines of activity.

But I commend you for this effort, and the progress you have made to date, and keep up the good work. Thank you.

Ambassador HILLS. Thank you. I would say, in response to your comment with respect to Korea: We do not ask that the nations of the world refrain from subsidizing farmers. We only ask that their subsidies be not trade-distorting.

So if, in their political scheme, it seems wise to channel additional resources to the farm community, we do not object.

If a country wants to write a big check to each farmer, we do not object. What we do object to is where a check is given in exchange for growing a particular crop which distorts trade for the world at large.

Mr. CRANE. Very good. Thank you.

Chairman GIBBONS. Mr. Downey, before I turn the floor over to you, let me say this. Mr. Moody has joined us this morning. Mr. Moody on his own initiative went to Geneva. We welcome you here, and before this morning is over, we will allow you to participate in the discussion.

Mr. MOODY. Thank you.

Chairman GIBBONS. Mr. Downey.

Mr. DOWNEY. Thank you, Mr. Chairman.

Ms. Hills, could you explain to me the position of our Government on sugar and whether it comes up in any of these discussions on agriculture?

Ambassador HILLS. Sugar will be scrutinized, as will all of our quotas, in our long-term analysis of trade-distorting measures.

Mr. DOWNEY. So it is an agenda matter for us in the Uruguay Round?

Ambassador HILLS. All trade-distorting measures will be investigated, and the private sector, the Congress, congressional representatives will be consulted as we proceed with our negotiations. All supports are on the table; all protections are on the table for the final analysis. With what speed and in what timeframe we reduce those supports will depend on our domestic will, as well as the will of the counterparts to adopt similar trade-streamlining measures.

Mr. DOWNEY. You danced around that one about as well as I think a person can. My congratulations.

Do we have a position, do you have a position, does USTR have a position as to what they would like to see happen?

Ambassador HILLS. I really did not mean to dance. Those are the rules. I cannot tell you here in an open forum that we have targeted a particular subsidy or a particular quota. That is not what we are about. We are trying to reduce across 96 nations similar trade-distorting measures. And it will depend very much on our consultations with Congress, with our private advisory groups, including our Agricultural Policy Advisory Committee with which I have just met, and with the positions taken the other sides to these negotiations. It is, as you know, a multifaceted negotiation.

We do not intend to unilaterally bring down our protections or our supports unless our counterparts do likewise.

Mr. DOWNEY. Well, what if we in the Congress decided that the quota was a bad idea? Would the administration object to that?

Ambassador HILLS. The Congress has to adopt what we do in the Uruguay Round in any event.

Mr. DOWNEY. Yes.

Ambassador HILLS. I speak of our final agreement; you must adopt our final agreement.

Mr. DOWNEY. I understand that. I am a little surprised by your statement—my only other analogy is in the arms negotiation. Are you suggesting that the current program that the United States has with respect to sugar is something that is an asset to us in the negotiations, and that we see it as a potential bargaining chip with other nations?

Ambassador HILLS. Well, we have agreed, Mr. Downey, to negotiate with our counterparts import access restrictions.

Mr. DOWNEY. Right.

Ambassador HILLS. And a quota on sugar is a restriction on import access.

Mr. DOWNEY. Right.

Ambassador HILLS. And, yes, we may be negotiating that quota, along with many other price supports——

Mr. DOWNEY. I understand that. But what you said, and I do not mean to be obstreperous, but I want it to be clear in my own mind, is you think that the current sugar program and I suspect on other commodities is something you see as a bargaining tool.

Ambassador HILLS. I am not prepared to tell you and not because I am holding back. But this is a negotiation, and I am not prepared

to tell you which of the import access or income supports or what combination thereof and in what order we are prepared to urge that they be reduced. This will depend on what happens worldwide.

Mr. DOWNEY. What is your sense of the progress?

Ambassador HILLS. We have just begun the fight. We have agreed to an agenda from whence to negotiate. We have finally agreed to a long-term goal. We have agreed to a work plan. We have asked our counterparts, and we will be prompt, as we hope that they will be, to put on the table before the end of this year protections that they are prepared to reduce.

We have a short-term program. The short-term program does not require that any nation enact new legislation but it does require that there be no increase in restrictions or protections. And those will be negotiated for 1990, 1 year.

Mr. DOWNEY. I want to ask you two other questions, one about beef hormones and your sense of progress there, and I also want to deal a bit more clearly with this issue. We will have probably before us within the next year or two the opportunity to change unilaterally the U.S. sugar program. It is my hope and my complete intention to gather the support of my colleagues to change the program. I think it is a mistake. I do not think it benefits the United States; I think it harms our country. It raises the price of sugar to consumers and to other industries, and I think it is something that, frankly, is indefensible. So I hope that in the calculus of the things that you do you will consider the fact that many of us have strong opinions that it is inimicable to the operation of a free marketplace to have a quota program like we have today, that it is a foreign policy mistake as well as an economic mistake.

Ambassador HILLS. Well, I appreciate knowing that, Mr. Downey, and we will work closely with you. That is the kind of consultation that we will need to have with all 535 Members of Congress.

Mr. DOWNEY. Right. It should be a busy business. Hopefully, we will be able to provide you about 220 here in the House and maybe 51 or 52 in the Senate.

Ambassador HILLS. Exactly. Then, of course, that will be of great assistance to us in determining where we should move most quickly on the measures to provide the fewest trade distortions.

Mr. DOWNEY. I hope so.

Could you give me some idea of—again, I realize there are negotiations, and these are particularly sensitive ones—about the beef hormone question, where you think it is going, when do you think we might see some form of resolution?

Ambassador HILLS. The task force that we formed on March 17 is meeting today and met yesterday. I think that we have accomplished some movement toward a small shared middle ground. There are substantial issues yet to be addressed. The 75 days that we specified as a framework for our negotiations runs on May 5. I cannot tell you whether we will have a satisfactory agreement by May 5 or whether there will be a need and a willingness to have additional time.

Mr. DOWNEY. Thank you. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman. Thank you, Madam Ambassador, for your presentation today.

You list the objectives for the midterm review, and the first one is to achieve some tangible results that could be implemented prior to the conclusion of the Uruguay Round. I came in a little late. Did you specify any of the tangible results that you expect to flow during the next year, say?

Ambassador HILLS. I certainly can do that.

The reason I open my notebook, Mr. Pease, is because we have a definition of "tangible," and I wanted to be sure that all in attendance understood what we meant by tangible; that is, results that can be implemented in 1989.

Of the 15 agreements that we have, the areas where we can see results in 1989 will be the dispute settlement, the functioning of GATT, agriculture, and tropical products.

We did achieve agreement on issues in each of those areas that can be implemented in 1989. With respect to our short-term agriculture goals, it is really a matter of political intent; that is, an intent that the participating parties will not increase their protections and subsidies from this date forward, through the remainder of 1989 and 1990. We regard that as a tangible result when we are dealing with over a hundred nations.

Mr. PEASE. So in the area of agriculture, the progress that we are to see consists of no slide-backs.

Ambassador HILLS. That is correct.

Mr. PEASE. OK. How about tropical products?

Ambassador HILLS. We agreed in Montreal to reduce barriers for a number of tropical fruits, and that is for the benefit of a number of lesser-developed countries. Those reduction in barriers are in place and can be implemented forthwith.

Mr. PEASE. I see. What about the dispute resolution process in the GATT? Do you expect to see some tangible changes this year in the way disputes are handled in the GATT?

Ambassador HILLS. We hope to get some streamlining in the dispute resolution. We have agreed to time limits, 15 months, and to certain other methods of expediting the process, which we feel will be very important as we move forward.

Mr. PEASE. Good. The second question regards agriculture. You mention in your testimony that the long-term objective of the negotiations will be to provide for substantial progressive reductions in agricultural support and protection. Until last December, the long-term objective of the United States was to eliminate subsidies altogether. Is this, in your view, a substantive change in our position?

Ambassador HILLS. I do not regard it as such. If you have substantial and progressive reductions that correct and prevent distortions in world agricultural markets, you will always go down and, over time, come to zero. So I think what you see here is a more diplomatic expression of what our intent and goal is over the course of the negotiations governing agriculture.

Mr. PEASE. Very well. Let me just say that, as one Member, I am just as happy that you have agreed to this different formulation. I felt from the beginning that our insistence on zero subsidies in agriculture was probably unrealistic and could not be sustained. I really think the formulation you have arrived at here is a much

sounder basis on which to approach this sticky problem. My colleague over here is interfering with my delivery.

Let me say, since my colleague is prodding me on sugar, that I am in substantial agreement with him, and I will probably be 1 of the 220 Members that he will bring to your side if you decide to go after sugar. You have said that the agreement that we have reached, the progress we have made in agriculture, consists of an understanding not to go any further in the direction of agricultural subsidies during 1989 and 1990. Is that correct?

Ambassador HILLS. That is our short-term political commitment, that we will not have legislation, but that it is the intent of the parties not to increase protections while we are negotiating the methods by which we would achieve our long-term goal.

Mr. PEASE. If I recall correctly, that would be a change from the position the United States had during the last farm bill, where our position essentially was we do not like export subsidies but the Europeans are involved in export subsidies; therefore, we are going to get involved with them to show the Europeans the folly of their ways.

I presume that as we consider, this year and next, renewal of the farm legislation, the administration would oppose any extension of our agricultural export subsidies. Is that a correct assumption?

Ambassador HILLS. What we will do in 1990 is already in place and countenances, as I understand, some reduction. So we will be in compliance with this framework agreement short term. Then we will have to work with Congress as to what should be the level of reduction over time. One aspect of the consideration will undoubtedly be what are world markets doing. We will undoubtedly be influenced if other nations are not bringing their subsidies down when we configure the program that we have here for our farmers.

Mr. PEASE. I see. Thank you.

Well, in conclusion I would like to congratulate you and your colleagues.

Ambassador HILLS. Thank you.

Mr. PEASE. I think there was considerable hazard for the future of the international trading regime, after Montreal and those barriers have been cleared away. You and your colleagues deserve a lot of credit for that. Thank you.

Ambassador HILLS. Thank you so much, Mr. Pease.

Chairman GIBBONS. Mr. Gephardt.

Mr. GEPHARDT. Thank you, Mr. Chairman.

I was in Japan in November and brought up that question of rice and other agricultural issues, and I was told it was their desire to try to handle such issues in the Uruguay Round. The Japanese felt it was a more appropriate way to deal with problems in these areas. European representatives on other issues have made similar statements on other issues, and I think that everybody agrees that we can make progress through these talks.

My question is: Do you feel that you are getting, or we are getting, good support from the Japanese and the Europeans in this round in trying to move the rest of the world toward a meaningful agreement? We have, I think, exercised leadership since World War II at developing multilateral solutions. I think the Europeans and Japanese have as well.

I think they have a special obligation right now to join with us equally in trying to bring the rest of the world to a meaningful agreement. I am not asking you to cast stones at anyone, but give us an evaluation of whether or not you are getting the kind of leadership and cooperation that we really have got to have from them, as highly developed industrialized countries, in order to bring about a good agreement.

Ambassador HILLS. Well, Mr. Gephardt, we did feel that we got considerable cooperation from the Japanese in the negotiations recently held in Geneva. As the press has documented, we had sharp differences with the Europeans in the agricultural sector, although we tended to have our views converge more or less with their's in the other three areas that we were negotiating in Geneva.

I do not see any hostility between the parties, although we did engage in some difficult and sometimes sharp negotiations. I would not report to you that there is a lack of leadership or that we feel that there is a lack of resolve. We have had our differences with both the Japanese and the Europeans of those parties from time to time in our negotiations, which is not to be unexpected since we are each negotiating from the point of view of our national interests.

Mr. GEPHARDT. In the area of intellectual property, which I know was one of the four most difficult areas, and I assume that we are trying to convince some countries that something should be done in this area. Could you describe briefly the difficulties you see on the horizon in this area? What is the fundamental difference of view that exists among blocs of countries on these issues which are going to have to be overcome in the next few months?

Ambassador HILLS. The United States feels very keenly that we need an agreed set of standards to protect our intellectual property, a method of getting enforcement of those standards within nations of the world, and the adoption of certain GATT principles that provide protection and a mechanism of having disputes nation to nation resolved adequately in this area.

There are a number of nations which do not have patent law at all; trademark and copyright laws are foreign to their system. They find it difficult immediately to adopt what we find commonplace, and this is a difficult area because we feel very strongly about protecting our high technology. To us, it's our crown jewels. So we will have to work hard in bringing along nations that very often are lesser developed than are we and have not reflected long in their own systems about whether and how to protect intellectual property.

But I will say that these rules are as much in their interests as in ours. They enhance the opportunity for investment. They are very akin to structural change which will enable them to benefit economically. So we feel that we are on the right side of this issue and hope that we can be persuasive.

Mr. GEPHARDT. Well, I wish you very well in that area. In my humble opinion, it has more to do with whether we can hold, if not enhance, our standard of living in the next 20 or 30 years than any other issue. I know how difficult it is to get progress with many of the countries, but I think this is in their interests as well. And, I

urge you, as I know you are, to give it the highest attention in the days ahead.

Ambassador HILLS. Thank you.

Mr. GEPHARDT. Thank you.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

I want to thank you, Madam Ambassador, for the fine job you and the negotiating team are doing in bringing freer trade to the world.

You mention in your statement that ministers also agree to begin implementation of long-term reform in 1991, referring to agriculture. I assume that you are referring to the slide-back provision that they would hold to the present tariffs. Is that the only agreement that was made?

Ambassador HILLS. We have divided the framework into a short-term agreement, which is defined as basically 1990, and a long-term agreement. And the slide-back as you term it, is really addressing our short-term goals. There is a political intention not to increase the current levels of support and protection in agriculture during the coming year.

Mr. GUARINI. There is no definite term? It is indefinite, the length of the binding term of the agreement concerning the slide-back provision?

Ambassador HILLS. Oh, yes. Once you adopt the short-term goal and you agree that you are not going to permit protections to go up, our long-term goal is that there will be from that point substantial progressive reductions. So our commitment is never to go up, always to go down, and always to the end of correcting and preventing trade distortions.

Mr. GUARINI. In other words, things will never get worse.

Ambassador HILLS. Correct.

Mr. GUARINI. Nonetheless, we more or less have given up hope on long-term subsidies being reduced during this round of negotiations?

Ambassador HILLS. Not at all. All of the protection and support measures are on the table in our long-term negotiations. That is exactly what we will be negotiating over the next 20 months.

Mr. GUARINI. So we are really still in a process of negotiating the position that we had some time ago?

Ambassador HILLS. That is correct.

Mr. GUARINI. We have not given up? There is still hope at the end of the tunnel more or less?

Ambassador HILLS. Yes. What we have achieved in Geneva is a breaking of a stalemate; a breakthrough, if you will, where the parties had not agreed to an agenda from whence to negotiate. And it was important to us to get a commitment to a long-term goal that would lead to a reduction of these trade distortions, and that is the expression of our long-term goal.

Mr. GUARINI. Have you found that the 1992 negotiations that the Common Market is having within Europe has created delicate situations and sensitivities that are making more difficult intellectual property rights, agriculture, and the other services, the other things that you are addressing now?

Ambassador HILLS. I think it is has had an uneven effect. I think it has made the negotiations in agriculture more painful for some of the nations in Europe. They have just adopted a common agricultural plan, and politically, to do more, or to appear to do much more, has been difficult. In other areas, because they have had experience in dealing with erasing barriers amongst the 12 of them, it perhaps has been easier. And I think that in the area of services, we may get a dividend with respect to their own exercise, but that is yet to be seen.

Mr. GUARINI. Well, for instance, when you mention services, are maritime services on the agenda at this round of GATT, or is that taken off the table?

Ambassador HILLS. Nothing is off the table. We have not agreed to the description of services that will be included. We have a framework agreement, and we will have to negotiation the inclusions and the exclusions.

Mr. GUARINI. Are we on our time schedule? Since we have about 20 months left, do you feel that we are on schedule, that we will accomplish many of our objectives within the next 20 months? Or are we lagging behind our schedules?

Ambassador HILLS. I believe we can. We have had about a quarter's delay. Had we achieved these 15 framework agreements in Montreal, it is conceivable that we would have been further along the path in the negotiations.

As you recall, we put the 11 framework agreements that we achieved in Montreal on hold, pending a successful outcome of the four where we had these very grave differences.

We have 20 months. Negotiators tend to use all the time that is available, and 20 months is a period of time where I think we can accomplish our purposes.

Mr. GUARINI. It goes by very quickly, though, does it not?

Ambassador HILLS. Yes.

Mr. GUARINI. May I just lastly ask you on the escape clause, section 201, are we clarifying what we mean by different types of temporary measures that will be given? Are there any changes that are going to be made in section 201 which allows us to take care of serious injury from foreign imports?

Ambassador HILLS. Our 201, our safeguard measure, is more stringent than any that has been adopted by any of our trading counterparts; so that within the framework agreement, we feel comfortable that what we already have is really a model.

Mr. GUARINI. And they accept that.

Ambassador HILLS. We are just beginning the negotiations.

Mr. GUARINI. Thank you very much, and good luck to you.

Ambassador HILLS. Thank you.

Chairman GIBBONS. Mr. Moody.

Mr. MOODY. Thank you very much.

Ms. Hills, it is a pleasure to see you again. We served together on the AGE Board, and congratulations on your new position. Let me say how much I appreciated the courtesies and the assistance of your people in Geneva. I was there at the GATT talks for most of the time.

Ambassador HILLS. Mr. Moody, we very much appreciate your taking the time to be in Geneva. It is enormously helpful to have someone from the committee there.

Mr. MOODY. Thank you. Well, I think there is a very positive role that we on the committee can play at certain times. We can be the "bad cop" occasionally, which can be helpful to you.

I am particularly interested in the intellectual property issue, and I am wondering if we attempt to use linkages in other areas, nontrade areas. Let me give you an example. Brazil has been our most difficult adversary on the question of intellectual property, and yet Brazil is counting on us to assist them in, let us say, the debt issue. I know debt is not a factor at these trade talks, and yet it seems to me we ought to be able to use linkages, particularly when we have such a thorn in our side as Brazil.

Have you given any thought to that? Are there any way cross-jurisdictional linkages that can be made here?

Ambassador HILLS. I have given a great deal of thought to that, and I have had some conversations with some people in various agencies. It cuts across several agencies, and some of the agencies are multinational. But I agree with you, and in particular I agree with you in context or intellectual property. As I mentioned, I regard protection of intellectual property as a structural change for the benefit of the nation adopting the change, as it will clearly enhance its economic well-being over time.

I cannot imagine an investor with a patent wishing to invest in a country when he knows it is going to be stolen.

Mr. MOODY. Right. And in Brazil's own interest, they should do this. But there are certain interests inside Brazil which benefit from the lack of intellectual property protections, which are obviously driving or at least influencing their official policies in Geneva. My question is: Couldn't we raise the ante and force the Government at the highest possible level to focus on this matter by raising some of these linkages? I guess that would be my suggestion. You are already attempting to do that.

Ambassador HILLS. We are trying to do everything. Even this morning, I have met with groups from Brazil. Negotiations are complicated, and different pressures and different approaches are useful in various circumstances. I can tell you we are giving those that do not adopt our view in intellectual property a great deal of our attention.

Mr. MOODY. Thank you.

On agriculture, it is interesting that some of our most difficult adversaries on agriculture—those that are ringed by most protectionistic policies, such as Japan and the Economic Community—were, in fact, our allies on the intellectual property battle. I know you cannot go into too much detail here, but do you see a potential problem in negotiating final terms? It is going to be difficult to develop coalitions because they cut different ways, as our allies are our enemies, depending on the issue. And yet at the end, everything or nothing has to be negotiated.

Could you expand a little bit on how you hope to handle that problem?

Ambassador HILLS. Carefully.

Mr. MOODY. Carefully? OK.

On agriculture again, you said that you do not think that our initial position of zero trade-distorting policies is substantially different from this sustained reduction because "you always get to zero."

Ambassador HILLS. You can get to zero.

Mr. MOODY. You can get to zero.

Ambassador HILLS. You can get to zero over time.

Mr. MOODY. But it may be a very long time. It is like the school parable asking the boy, if someone shoots an arrow at a tree and keeps cutting the distance in half as the arrow gets closer to the tree, does it ever hit the tree? No, it never hits the tree because you are always cutting a number in half.

Are we buying an infinite process with no ending to it by changing the language as we did?

Ambassador HILLS. Had we adopted the word "eliminate," Mr. Moody, we would have had to agree on a year when this elimination would have occurred. And that could have taken an incredibly long period of time.

It seems to me that the nations of the world and the United States are better served by getting on with it. And I do not exaggerate when I tell you that I do believe that substantial, progressive reductions to correct and prevent trade distortion lead you inevitably down, so that at a point you will have no trade distortions at all.

Mr. MOODY. Yes, or no significant ones. Thank you.

Finally, does it strengthen our hand substantially, do you think, at these talks, that we have recently concluded a bilateral agreement with Canada? And do you see the possibility of other bilateral agreements, free trade agreements—perhaps with Mexico, perhaps with others—as strong and important leverage in our multilateral talks? Or do you think they are a negative factor for us?

Ambassador HILLS. Generalizations in world trade are quite difficult. We have 20 months remaining. I can tell you that this round is ambitious, with 15 groups, and there will be benefits for each of the 96-plus nations and some concessions for each as well.

If a nation can achieve the benefits it seeks in a side agreement, it may be less interested in pursuing with energy our broader goals in the Uruguay Round. So, as a general proposition, I would hope to focus primarily for the 20 months remaining on the Uruguay Round, which does not, of course, preclude entering into a bilateral agreement on some subjects with some nations. And we have done so.

I have recently signed an intellectual property agreement covering copyrights with Indonesia. And on any occasion where I could achieve those benefits, of course I would want to do that.

When you talk about a free trade agreement of the nature of Canada, you are talking about an agreement that covers virtually all of your two-way trade. All of it. And that is the requirement within the GATT when you develop a separate bilateral free trade agreement. Such an effort would be distracting for both nations involved and might be counterproductive. But, again, many things happen; many changes occur over time. I can just tell you this morning that I am focusing primarily on the Uruguay Round.

Mr. MOODY. OK. Thank you. Let me just add my 5-cent chocolate bar to the talk about sugar. I know Mr. Dorgan to my right will

disagree, but we have chocolate producers in my district and they tell me they are being devastated by the importation of Canadian chocolate made with 6-cents-a-pound sugar. They cannot compete. We are losing jobs in Wisconsin because of our sugar policy.

I want the record to show that the sugar policy does not benefit all U.S. citizens; some U.S. citizens are badly hurt by our sugar policy.

Ambassador HILLS. Well, I really appreciate your statement, your concern, and either in writing or verbally, I would like to collect all of them, because those issues will obviously be key as we try to reflect on the many varied interests in these complicated areas.

Mr. MOODY. Right. Thanks again for the courtesies in Geneva.

Ambassador HILLS. Thank you.

Chairman GIBBONS. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

Ms. Hills, thank you very much. Let me ask a couple of questions and, before I do, indicate that in Congress the bark is most often worse than the bite. And on sugar policy issues, notwithstanding what has been said here today, I think you know that there is substantial and aggressive support here in Congress for the current sugar program. It is a program that works; it is a program that has produced stability in prices for producers and consumers; and it is a program that we belatedly developed after we had lost almost 50 percent of the domestic sugar production industry in America.

I just want to say that although you hear about candy bars and disadvantaged consumers from some of my friends, you will understand that there is aggressive and very substantial support for the current sugar program in Congress. I would also say not just with respect to sugar, but with respect to sugar and others, I would be very distressed to think that anybody would want to negotiate away anything that would represent a unilateral reduction in any of our programs here in this country when you are negotiating in the Uruguay Round.

Having transmitted that message about the support for the sugar program here in Congress, let me ask a couple of questions, if I might. Do you believe that support prices generally—and I am thinking now of target prices for wheat and feedgrains, as an example—are trade-distorting by nature?

Ambassador HILLS. They can be; yes, indeed.

Mr. DORGAN. They can be, but my question is—are they always? The reason I ask the question—when Clayton was negotiating an end to all subsidies, the proposition seemed to be that virtually all payments to farmers were subsidies. Let us negotiate them all the way, at the end of which you would have no bridge over which you would help family farmers move through price depressions, international price swings that they cannot predict or deal with.

I think the country would be at a severe disadvantage if it believed, and then acted on that belief, that target prices, for example, are trade distorting.

I do not believe that target prices or a domestic support price system is necessarily trade distorting. I think we should negotiate away trade distorting subsidies, but that does not mean, in my

judgment, that we ought to negotiate away domestic price support programs that are not trade distorting. What is your view on that?

Ambassador HILLS. Well, Mr. Dorgan, if we worry about the farmer, as I think we all do, going through a circumstance where conditions beyond his control, such as drought over multiple years, we want the capacity to provide benefits. But, we do not have to provide a subsidy to a crop. We have the capacity to write a check to take care of extraordinary circumstances.

When you provide money, a target, or guarantee a price for, say, wheat, or any product, you influence that farmer to grow that crop in lieu of a crop which the market may receive more favorably.

We do have a number of trade distortions in our farm support and protection programs. We are not suggesting that they be unilaterally taken down. We do believe that we have the best farmers in the world, and that if the European Community and other nations abroad were to bring down their supports and protections and provide market access, that our farmers would be better off than by receiving a check that is linked to growing a particular crop.

Mr. DORGAN. None of us would disagree with that, provided that the world price represents something above the cost of production.

But I would tell you that, while the country has enjoyed a lengthy period of economic growth, my region of the country has not enjoyed any growth. It has enjoyed a lengthy recession, and that is because agriculture prices generally have been below the cost of production, and were it not for a system of support prices during these last 6 or 8 years, we would have had bankruptcies far and above the total that we have already experienced, which have been catastrophic for us.

So I understand your point, and that point works if you have prices at a world level that are sufficient to cover the cost and provide folks with a living, but let me ask another followup. If you want to get to the free market by eliminating virtually all support programs and all trade-distorting subsidies, and then we find a point at that free market where our producers are faced with OSHA, are faced with EPA, are faced with unemployment compensation, are faced with 12- or 14-percent interest rates when they go borrow money, and they are competing with the farmer that does not face OSHA, does not face EPA, does not face unemployment—pays 3-percent interest rates when they borrow money. Is that a free market, and is that fair competition?

Ambassador HILLS. The correction could occur by not giving a check to grow wheat or corn, but to give the check to handle the particular hardships of being a farmer. Then the farmer could decide which crop—maybe soybeans this year and wheat next year—would be in his best interest. That approach would tend, if it were done worldwide, to create market price, a that would be above the cost of production.

Mr. DORGAN. And I think you are describing something like some kind of domestic support program, not linked to specific crops.

The point I am trying to make to you is that I certainly agree that we ought to be aggressive in trying to negotiate away terrible trade distortions, such as the restitution approach by the EC and others. Clearly, they make no sense. Everybody loses once everybody starts bidding in that same game and bids it all down.

There are very strong reasons for us not to negotiate away domestic support programs that are necessary if we want to maintain a network of family farms in this country's future.

Some of us, who have a great concern about agriculture, have been very worried recently about things we have seen in the newspapers that maybe somebody is off writing the new farm program somewhere in Europe in trade negotiations, and we are very concerned about that and would not like to see that happen at all.

We hope to work with you in a cooperative way to join you in supporting and negotiating away trade distorting subsidies, but to make certain that you do not tie the hands of Congress in negotiations to prevent us from providing domestic support programs that we think are very necessary and do not distort trade.

Ambassador HILLS. Mr. Dorgan, we do not have the capacity to tie your hands. You have the capacity to tie ours, because whatever we negotiate in the GATT must be approved by Congress.

I can assure you the Agriculture Committee would like to draft its own farm bill and not have it drafted by someone over in Geneva, and you can be assured it will not be done in that fashion.

Mr. DORGAN. Having said all of that, I certainly hope that we can work together—all of us—in common goals for this country and its farmers.

Let me make one final point. We have recently enacted a United States-Canada Free Trade Agreement.

Ambassador HILLS. Yes.

Mr. DORGAN. Farmers in North Dakota tell me at every meeting that I attend that the trucks heading south from Canada head in long rows, bringing grain from Canada to the United States.

We have a letter agreement, I believe, which I helped develop between the Canadians and our Government when we were passing the Free Trade Agreement here in Congress, that indicated there would be no substantial change in the quantity of grain exports from Canada to the United States.

Would you join me in working through a process by which we can aggressively monitor what is coming over from Canada in grain shipments, because all of us are very concerned about that. We want to try to find out what is happening in order to evaluate what to do about it. Would you join us in trying to get to the bottom of that?

Ambassador HILLS. Certainly. I am pleased to look into it and see what is the quantity of inbound shipments.

Mr. DORGAN. All right. Thank you very much.

Ambassador HILLS. Thank you.

Chairman GIBBONS. Madam Ambassador, we appreciate your fine testimony this morning. Thank you.

Ambassador HILLS. Thank you so much, Mr. Chairman.

[Whereupon, at 11:23 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF ANN OTTOSON KING, COUNSEL
AMERICAN CORDAGE AND NETTING MANUFACTURERS

I. Introduction

The American Cordage and Netting Manufacturers (ACNM), a group dedicated to a strong American Industry, is submitting these comments for the consideration of the Subcommittee on Trade of the Committee on Ways and Means of the U.S. House of Representatives (Subcommittee) in response to Press Release #6, dated March 17, 1989, providing for written statements in lieu of personal appearance in the Subcommittee's hearing on the Uruguay Round of Multilateral Trade Negotiations. ACNM has no objections specifically tied to the Harmonized Tariff Schedule (HTS) numbers announced as "Articles Which May Be Considered for Duty Modification in International Trade Negotiations" by the Office of the United States Trade Representative (see 54 Fed. Reg. 1810, January 17, 1989) but does wish to bring to the attention of the Subcommittee certain concerns ACNM has as the "Uruguay Round" of tariff negotiations approaches.

II. Products of Concern

ACNM members manufacture rope, twine, cable and netting (cordage) in the United States. Together with their suppliers, domestic manufacturers wish to ensure that the Congressionally-mandated quotas and duties, most of which were arrived at as the result of multilateral, quid-pro-quo negotiations in previous MTN rounds, are not inadvertently removed in such a way as to further injure a productive and efficiently operated U.S. industry vital to National defense. It should be noted here that the products that require the qualifier "most" in the previous sentence, "cordage of wide non-fibrillated strip," although classified and used as cordage, are dutied at the rate for plastic instead of the textile rate for cordage under the HTS and have the quota benefits of non-textiles.

ACNM believes in two vital points. Imported products from whatever source should be required to meet the same safety and package labelling requirements as cordage produced domestically. Cordage, which is a textile, must be imported and classified as a textile and not as a plastic camouflaged by insertion in Chapter 56 of the HTS. For ease of reference, a listing of those HTS numbers with which ACNM is concerned and their HTS descriptions is included in attached TABLE 1.

III. Domestic Industry Concerns

A. Multinational Trade Negotiations Must Not Provide an Opportunity for the Creation of Phantom Classifications.

It is the position of the domestic industry that no such product as cordage of wide nonfibrillated strip exists. Cordage of man-made fibers is often made from polyolefins; polyolefins when oriented, as they must be to produce cordage, fibrillate. Therefore there can be no such item as polyolefin cordage of wide nonfibrillated strip, q.e.d.

Because the United States has now adopted the HTS, it participates in a system where tariff classifications are written by negotiation in Brussels (at the Customs Cooperation Council). Item numbers for cordage of wide nonfibrillated strip are a special group definitions created for the United States and inserted in the HTS even though the domestic industry has demonstrated again and again that no such product exists. ACNM asserts that this group was inserted to assist foreign exporters to ship products into the United States without paying appropriate duties or adhering to negotiated textile quota

restrictions. These imported products compete directly with efficiently-manufactured products of U.S. manufacturers; imported products are often priced below cost of production and inflict serious injury on the domestic industry.

With this history in mind, ACNM urges the Subcommittee to exercise diligence in overseeing the negotiations and in its consideration of any proposals, whether from the private sector or governmental agencies, to ensure U.S. tariff schedules and duty rates are not adjusted indirectly, purely for the benefit of shippers into the U.S. market from other countries, thus leading to injury to efficiently run domestic manufacturing operations. "Cordage of wide nonfibrillated strip" is for the United States a phantom classification which allows rope, twine and cable to enter the United States treated as articles of plastic, not specially provided for, rather than as cordage. Although the items were moved into the Cordage section at the time of the conversion from TSUS to HTS, the duty rates and non-quota status of plastic, n.s.p.f. are applied rather than the Congressionally mandated duties and quotas.

B. The Euphemism of Removal of Nontariff Barriers Must Not Cover a Reduction in Safeguards for U.S. Consumers.

Many individuals and organizations argue that packaging or labelling requirements and industry performance standards are merely nontariff barriers. Packaging or labelling requirements and performance standards often serve a primary function in manufacturing and merchandising industries by providing a basic uniformity against which buyers may measure products. A consumer should not have to set up a testing laboratory to determine whether the rope he is considering buying will fulfill his needs. Care should be taken in approaching multilateral negotiations so that bona fide industry standards upon which buyers rely are not swept away as "nontariff barriers," leaving consumers without reliable industry standards.

C. Special Concessions Should Not be Given to Countries That Repeatedly Violate Unfair Trade Practice Laws.

Although multilateral trade negotiations have as their aim a universal reduction in duty rates, it often appears to domestic manufacturers that those foreign manufacturers who use unfair trade practices to gain a foothold in the U.S. market are rewarded with tariff reductions or the removal of such nontariff barriers as negotiated quotas on exactly the products that have been unfairly traded, adding further injury to injury. Such a situation should not be permitted. Care should be taken in assessing the probable economic effect on U.S. industries to include the cost of unfair trade practices. To remove a duty on an unfairly traded product would add insult to proven injury to a United States firm. Whether by analysis of trade statistics to preclude reductions on items that will primarily benefit repeat offenders or by including the cost to U.S. industry of fighting the unfairly traded imports as a cost of the tariff reductions or nontariff barrier removals, unfair trade practices should not be rewarded. (The cost could be added based upon, inter alia, the theory that U.S. industry would have that capital resource to use to compete with lower dutied imports if it had not had to use it to combat unfairly traded ones.)

IV. Conclusion

ACNM urges the Subcommittee to assess any recommendations carefully so U.S. industry is not injured, however indirectly, by agreements negotiated to remove tariffs or nontariff barriers.

Respectfully submitted,

LEIGHTON AND REGNERY

Ann Ottoson King
1667 K Street, N.W. Suite 801
Washington, D.C. 20006
(202) 955-3900
Counsel to
American Cordage and
Netting Manufacturers

99-551 0 - 89 - 3

TABLE 1

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XI
56-4

Heading/ Subheading	Stat. Suf. & cd		Article Description	Units of Quantity	Rates of Duty		
					General	Special	2
5607			Twine, cordage, ropes and cables, whether or not plaited or braided and whether or not impregnated, coated, covered or sheathed with rubber or plastics:				
			Of polyethylene or polypropylene:				
5607.41			Binder or baler twine:				
5607.41.10	00	5	Of wide nonfibrillated strip	kg	5.3%	Free (A,E,IL) 4.7% (CA)	80%
5607.41.30	00	1	Other (201)	kg	6%	3.2% (IL) 7.2% (CA)	78.5%
5607.49			Other:				
5607.49.10	00	7	Of wide nonfibrillated strip	kg	5.3%	Free (A,E,IL) 4.7% (CA)	80%
			Other, not braided or plaited:				
5607.49.15	00	2	Measuring less than 4.8 mm in diameter (201)	kg	6%	3.2% (IL) 7.2% (CA)	78.5%
5607.49.25	00	0	Other (201)	kg	27.6¢/kg + 15%	11¢/kg + 6% (IL) 24.6¢/kg + 13.5% (CA)	27.6¢/kg + 78.5%
5607.49.30	00	3	Other (860)	kg	7.2%	2.8% (IL) 6.4% (CA)	80%
5607.50			Of other synthetic fibers:				
5607.50.20	00	1	Not braided or plaited (201)	kg	27.6¢/kg + 15%	11¢/kg + 6% (IL) 24.6¢/kg + 13.5% (CA)	27.6¢/kg + 78.5%
5607.50.40	00	7	Other (860)	kg	7.2%	2.8% (IL) 6.4% (CA)	80%
5607.90			Other:				
5607.90.10	00	5	Of coir	kg	Free		Free
5607.90.20	00	3	Other (201)	kg	7.2%	Free (E*) 2.8% (IL) 6.4% (CA)	40%
5608			Knotted netting of twine, cordage or rope; made up fishing nets and other made up nets, of textile materials:				
			Of man-made textile materials:				
5608.11.00	00	2	Made up fishing nets (229)	kg	17%	6.8% (IL) 15.3% (CA)	82%
5608.19			Other:				
5608.19.10			Fish netting		17%	6.8% (IL) 15.3% (CA)	82%
	10	0	Salmon gill netting, of nylon or other polyamides (128)	kg			
	20	8	Other (229)	kg			
5608.19.20	00	0	Other (128)	kg	10%	Free (IL) 8% (CA)	80%
5608.90			Other:				
5608.90.10	00	4	Fish netting and fishing nets	kg	17%	Free (E*) 2.5% (IL) 15.3% (CA)	82%
			Other:				
5608.90.20	00	2	Of cotton (229)	kg	16%	6.4% (IL) 14.4% (CA)	80%
5608.90.30	00	0	Other	kg	10%	Free (A,E*,IL) 8% (CA)	80%
5609.00			Articles of yarn, strip or the like of heading 5404 or 5405, twine, cordage, rope or cables, not elsewhere specified or included:				
5609.00.10	00	2	Of cotton	kg	5.8%	2.3% (IL) 5.2% (CA)	40%
5609.00.20	00	0	Of vegetable fibers, except cotton	kg	4.4%	Free (A,E*) 1.8% (IL) 3.9% (CA)	40%
5609.00.30	00	8	Of man-made fibers	kg	9%	Free (IL) 8.1% (CA)	78.5%
5609.00.40	00	6	Other	kg	7.8%	Free (E*) 3% (IL) 7% (CA)	90%

Chemical Dynamics Corporation

HADLEY INDUSTRIAL PLAZA, Hadley Road, P.O. Box 395, South Plainfield, New Jersey 07080
Tel. 201/753-5000 • Fax: 201/753-8734 • Telex: 4754581-CHEMDYN

April 25, 1989

Mr. Robert J. Leonard
Chief Counsel
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
Room 1102
Longworth House Office Bldg.
Washington, DC 20515

RE: Uruguay Round of GATT

Honorable Robert J. Leonard:

This letter is written as a statement concerning the importation of a chemical product produced in Japan. Specifically, the item concerned is Maleic Acid as specified by the chemical abstract number [110-16-7]. Enclosed are prior communications with U.S. Customs, Congressman Jim Courter, and the U.S. Trade Representative.

The reason for the issue at hand is due to the new Harmonized Tariff System as transcribed from the old TSUS system in relation to Maleic Acid. Chemical Dynamics imports Maleic Acid from Nippon Oil and Fats Company, (NOF), which is located in Japan. NOF is producing Maleic Acid from a non-benzenoid feed stock and is certified as such. The attached communication outlines the technical basis for our argument. Politically, we have reason to believe that the Japanese Government (MITI) was not informed of the unification of benzenoid and non-benzoid tariff classifications.

In the context of international trade, the situation of Maleic Acid may be small but for Chemical Dynamics it is a major business focus. We have been able to import NOF produced Maleic Acid as non-benzenoid product under a lower duty rate and compete against European benzenoid produced Maleic Acid which has a higher duty.

In the enclosed documents one can find the National File of the United States Cross Reference List for the existing to proposed HTS classifications. In this document one can clearly see the separation of benzenoid and non-benzenoid produced Maleic Acid. Neither MITI or Chemical Dynamics was notified of a deviation from this proposed schedule.

I respectfully request that you review this situation and allow the continued separate import classification for benzenoid and non-benzenoid Maleic Acid. Such separation will continue to allow Chemical Dynamics to import non-benzenoid Maleic Acid from Japan and compete against European product here in the United States.

Sincerely,

CHEMICAL DYNAMICS CORPORATION

Greg Jobin
Purchasing Manager

GJ/abr
Enclosure

Chemical Dynamics Corporation

HADLEY INDUSTRIAL PLAZA, Hadley Road, P. O. Box 395, South Plainfield, New Jersey 07080
Tel. 201/753-5000 Telex 219884

August 19, 1988

Jean F. Maguire
Acting Area Director
DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
6 World Trade Center
New York, NY 10048

Re: Duty Classification for Maleic Acid

Dear Jean,

I am writing this letter to expand further on the current classification status under the Harmonized System for Maleic Acid.

I have received your letter dated July 8, 1988 in which you gave the HTS number for Maleic Acid as 2917.19.2510. As a chemist, I see the progression of duty classification under the Polycarboxylic Acid section (specifically the acyclic polycarboxylic acids) as incomplete.

Under the HTS system Maleic Anhydride has provisions for benzenoid and non-benzenoid production. This is also the situation for Fumaric acid. Maleic Acid is structurally very similar to Fumaric Acid with the only difference being the cis/trans configuration around the olefin bond.

Production of Fumaric Acid can go through the same intermediate as that for Maleic Acid. This intermediate is Maleic Anhydride. The formation of Fumaric Acid from the Anhydride is catalyzed by trace amounts of an acid catalyst. If the HTS can distinguish benzenoid from non-benzenoid Fumaric Acid, and also Maleic Anhydride, it is logical that one should also separate benzenoid from non-benenoid Maleic Acid, since Maleic Anhydride is the direct precursor to Maleic Acid.

Under the present TSUS system there is provided such separation as explained above but the pending HTS system is a radical change from current classification and should be reviewed. If unchanged, the HTS system will severely impact our commercial ability to remain competitive against other imported Maleic Acid and ultimately impact our small company's profitability.

As a minor point I would like to correct the origin of our Maleic Acid as coming from Japan and not the Netherlands.

I respectfully ask you to consider the above ideas and advise me of your views. If possible I would like to discuss this issue with you in more detail to investigate a modification of the HTS system. Copies of earlier communication are enclosed for your reference.

Sincerely,

CHEMICAL DYNAMICS CORPORATION

Greg Jobin
Purchasing Manager

GJ/abr
Enclosure

Chemical Dynamics Corporation

HADLEY INDUSTRIAL PLAZA, Hadley Road, P. O. Box 395, South Plainfield, New Jersey 07080
Tel. 201/753-5000 Telex 219884

October 7, 1988

cc: Frank Lautenberg, Jim Courter

Honorable William Bradley
UNITED STATES SENATE
731 Hart Senate Office Building
Washington, DC 20510

Re: Harmonized Tariff Schedule Classification

Dear Mr. Bradley,

I am writing this letter to bring to your attention a situation I have recently become aware of.

Chemical Dynamics Corporation is a small company located in South Plainfield, New Jersey. Founded in 1972, we have grown to approximately 45 employees with a broad scope of business in the chemical industry. With almost half of our employees being chemists, we take a technical approach to chemical marketing and have developed a reputation in the industry as "problem solvers".

Our business activities include the importation of specialty chemicals for use in the pharmaceutical, agricultural, perfume and plastics industries. We also have our own production of N-protected amino acids leading to peptide formation for use in pharmaceutical research and production. We are very involved with many leading ethical pharmaceutical companies helping them develop new pharmaceuticals for the future.

As we are a small company, we have a few "core" products which represent a major portion of our activities. One of these products is Maleic Acid which is imported from Japan. We have commercial relations with the producer, Nippon Oil and Fats, which produces Maleic Acid from a non-benzenoid starting material. I am enclosing a letter I had previously sent to U.S. Customs in New York in which I had asked for clarification on the Harmonized Tariff Schedule classification for Maleic Acid.

Under the current TSUS system there is provision for both benzenoid and non-benzenoid produced Maleic Acid. This provision allows for a duty advantage on non-benzenoid derived Maleic Acid. This provision has allowed Chemical Dynamics to be competitive against other imported Maleic Acid as produced from benzenoid raw materials.

Under the proposed Harmonized System, this duty separation is erased and all Maleic Acid is classified under one heading which will warrant a higher duty rate.

As explained in my August 19, 1988 letter to U.S. Customs, the Harmonized System does allow benzenoid/non-benzenoid classification for other similar chemicals. These are specifically Fumaric Acid and Maleic Anhydride. Fumaric Acid can be produced from Maleic Anhydride as can Maleic Acid. Such downstream products originating from the same "parent" molecule should allow them to be classified the same way for importation.

The proposed Harmonized System is discriminating against Maleic Acid and not chemically consistent with the current law.

The impact of this higher duty is significant to the business activities of Chemical Dynamics. If we lose our competitive position on this product, Chemical Dynamics will be faced with the economic impact of reduced sales and profit. In a time of increasing material cost due to many factors which include mainly currency exchange, this increased duty will jeopardize our continued involvement with Maleic Acid. This can ultimately lead to a reduction in employment at Chemical Dynamics Corporation.

Under the current TSUS system our Maleic Acid is allowed to be imported at 4.2% under heading 425-9960. With the Harmonized System, all Maleic Acid will be classified under 2917.19.2510 with a duty of 16.8% ad valerem plus 3.7 cents per kilogram.

I respectfully request that you review this current situation and institute equal representation to Maleic Acid under the Harmonized Tariff System as that allowed to Fumaric Acid and Maleic Anhydride. The urgency of this matter is critical as the Harmonized Tariff System is scheduled to go into effect January 1, 1989.

If I can be of further assistance please feel free to give me a call.

Sincerely,

CHEMICAL DYNAMICS CORPORATION

Greg Jobin
Purchasing Manager

GJ/abr
Enclosure

cc: Ms. Susan W. Liebeler, U.S. ITC
Mr. Arthur Wineburg, U.S. ITC

ITEM NUMBER		COLUMN 1 RATES OF DUTY		
PROPOSED HS TSUS :RDC	EXISTING TSUS	PROPOSED HS TSUS	EXISTING TSUS	EXISTING GATT STATUS AND INR'S

Legend: ¥ = Proposed rate differs from existing rate.
RDC = Rate derivation code (0 = no rate change; 1 = lowest of existing rates; 2 = majority of trade rate; 3 = trade weighted average rate; 4 = arithmetic average rate; 5 = other method).
GATT Status: B = existing rate bound; C = GATT rate higher for all or part of item; L = GATT rate is lower but conditioned; P = Part of item not in GATT; U = None of item in GATT; N = Special rate/product item (Cuba, APTA, Sch. 8) outside of GATT.

29171950--3		Nonaromatic acyclic polycarboxylic acids, their anhydrides, halides, peroxides, peroxyacids and their derivatives, nspf		
	42552	Nonbenzenoid nitrogen compounds other than those listed in TSUS 425.00-42		
		4.0% --B	¥7.9%	B--G/79
	42599	Organic acids other than those listed in TSUS 425.70-96		
		4.0% --B	¥4.2%	B--G/79
	42604	Organic acid anhydrides other than acetic anhydride and valeric anhydride		
		4.0% --B	¥4.2%	B--G/79
	42664	Organic nickel salts other than nickel acetate and nickel formate		
		4.0% --B	¥3.7%	B--G/79
	42728	Salts of organic acids other than those listed in TSUS 426.08-427.25		
		4.0% --B	¥3.7%	B--G/79
	42730	Acyl halides		
		4.0% --B	¥3.7%	B--G/79
	42847	Alcohols, polyhydric and esters, ethers ether-esters and substituted derivatives of any of the foregoing, nspf		
		4.0% --B	¥12.3%	B--G/79
	42872	Esters of monohydric alcohols other than those listed in TSUS 428.50-428.68		
		4.0% --B	¥3.7%	B--G/79

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

DEC 9 1988

The Honorable Jim Courter
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Courter:

Thank you for your letter on behalf of your constituent Greg Jobin concerning the rate treatment of maleic acid in the Harmonized System (HS).

Mr. Jobin has expressed concern that the provisions in the Tariff Schedules of the United States (TSUS) for benzenoid and non-benzenoid maleic acid have been merged in the Harmonized System at the rate currently applicable to benzenoid produced maleic acid. In converting the TSUS to the Harmonized System, it was not possible to replicate each and every TSUS rate without producing an excessively cumbersome and unadministrable tariff. In fact, the President's directives for the tariff conversion specified that the U.S. International Trade Commission should seek to simplify the tariff schedule, while at the same time avoid rate changes to the extent practicable. The end product, which is the Harmonized Tariff Schedule that Congress enacted in the Omnibus Trade and Competitiveness Act of 1988, is balanced both globally and bilaterally.

Mr. Jobin has correctly noted that in some cases the Harmonized Tariff Schedule does maintain the distinction between the benzenoid and non-benzenoid rates. However, in the case of maleic acid, trade in the non-benzenoid derived product was too small to warrant a separate classification. Thus, using the "preponderance of trade" methodology of rate derivation, the two categories of maleic acid were combined at the benzenoid rate where most trade falls. Preponderance of trade was a commonly used method of rate derivation, both in the U.S. and in foreign HS conversions, and, while generally neutral overall, did result in both rate decreases and increases on specific products.

Our process for converting to the Harmonized System was fully transparent. The Administration solicited public comments and suggestions on the conversion on an on-going basis for nearly five years. We also consulted closely with the Industry Sector Advisory Committee on Chemicals and Allied Products, as well as with a number of trade associations in the chemicals area. As a

result of this process, the average duty rate in the chemicals chapters of the Harmonized Tariff Schedule is the same as in the Tariff Schedules of the United States.

The Administration does not have authority to make changes to legal tariff rate lines in the Harmonized Tariff Schedule which would have the effect of lowering rates on particular products. In the legislative history to the Omnibus Trade and Competitiveness Act of 1988, Congress recognized that some outstanding problems might remain with the HS tariff schedule and suggested that these be addressed in the context of the Uruguay Round tariff negotiations. I will pass a copy of Mr. Jobin's letter to our GATT Affairs group, which is heading up Uruguay Round tariff negotiations for the United States.

Sincerely,

Judith H. Bello, Acting
for Clayton Yeutter

CY:nam

EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506
202-395-5114

APR 10 1989

Mr. Greg Jobin
Purchasing Manager
Chemical Dynamics Corporation
Hadley Industrial Plaza
Hadley Road
P.O. Box 395
South Plainfield, N.J. 07080

Dear Mr. Jobin:

Ambassador Hills has asked me to respond to your most recent letter concerning the Harmonized Tariff Schedule (HTS) duty rate for maleic acid.

As this office has previously indicated, the duty rate for maleic acid was derived using preponderance of trade. During the base period (1981-83) used for the General Agreement on Tariffs and Trade (GATT) negotiations with Japan, trade in non-benzenoid maleic acid was believed to be zero. Therefore, the HTS rate for maleic acid was derived from the provision covering the benzenoid product in the Tariff Schedules of the United States (TSUS).

You indicate that the Japanese Government was not informed of the proposed duty change on non-benzenoid maleic acid. Classification in the Harmonized System is governed by the General Rules of Interpretation, which are applied internationally. General Rule of Interpretation 1 states that "...classification shall be determined according to the terms of the heading..." Under General Rule of Interpretation 1, HTS subheading 2917.19.25 clearly would cover all types of maleic acid.

The United States and Japan conducted Article XXVIII negotiations on each other's proposed Harmonized System tariff schedules for over two years. During the first year, the two sides held detailed, technical discussions during which each side explained the rationale behind the rate derivation of individual tariff rate lines. Following this technical examination, each side made changes to its proposed tariff schedule before tabling a formal Article XXVIII offer for negotiation. The issue of maleic acid was not raised by the Government of Japan during any stage of the Article XXVIII process. Article XXVIII negotiations were successfully concluded between the United States and Japan in the spring of 1987.

The U.S. conversion to the Harmonized System was fully transparent. The Administration published the proposed new tariff three times for public examination, solicited public comments on an on-going basis for five years, and consulted actively with numerous trade associations. The fact that trade might exist in non-benzenoid maleic acid was not brought to our attention at any time during the conversion process.

The United States is currently in the midst of a multilateral trade negotiation. One of the goals of the negotiation is to increase market access both at home and abroad through the mutual reduction of tariff and non-tariff barriers. This office has recently sent a notice to the Federal Register soliciting views of interested parties on, among other things, the possible reduction or elimination of U.S. tariffs. Views may be submitted in a written or oral statement for a hearing tentatively scheduled to be held on October 31, 1989. Participation in this process is the best way to ensure consideration of a duty reduction on non-benzenoid maleic acid during this round of multilateral tariff negotiations.

Sincerely,

Joshua Bolten
Acting

JB:nam

STATEMENT OF THE ELASTIC FABRIC MANUFACTURERS COUNCIL,
NORTHERN TEXTILE ASSOCIATION

SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS

This statement is submitted by the Warp Knit Division of the Elastic Fabric Manufacturers Council of the Northern Textile Association. The Warp Knit Division consists of eight companies which produce over 90% of the warp knit elastic fabrics in the United States. Customers for these fabrics are primarily U.S. based manufacturers of intimate apparel, swimwear, activewear, upholstery, industrial, and medical markets. Warp knit elastic fabrics are produced on state-of-the-art wide raschel knitting machines, using elastomeric yarns primarily blended with nylon and polyester. Tariffs on some of the products and their end use items not only were cut in the Tokyo Round but were also recently cut in the conversion to the Harmonized System, as will be detailed below.

We call the Committee's attention to the attached memorandum, tables and graphs detailing import statistics and tariff history for elastic fabrics, lace, body supporting garments, swimwear and bodywear. Statistics on imports of swimwear and bodywear containing elastomeric yarn only began to be separately reported in 1989 so as yet we have no information on those imports though the association will be monitoring those.

In the past three years the membership of the Warp Knit Division has been reduced by the acquisition of two significant producers of this fabric. The principal concern for the viability of this highly specialized sector of the textile industry is the further erosion of its customer base, primarily in the intimate apparel industry. As the attached statistics show, imports of man-made fiber body supporting garments, one of the largest markets for members of the Warp Knit Division, have increased from approximately 10.9 million dozen in 1978 to over 17.6 million dozen for 1988. While a significant proportion of the brassiere imports are imported under tariff paragraph 807, manufactured with American-made components, 807 imports represent a decreasing proportion of total imports of these products. 807 imports have increased by 51% since 1978 while total imports have increased by 61%. Import to domestic production ratios have increased from 56.4% in 1978 to 78.2% in 1987. Clearly the domestic industry is losing ground.

Tariffs on knit fabrics of man-made fiber which includes warp knit elastic fabric, were reduced in the Tokyo Round from .25lb./and 20% ad valorem in 1981 to 14% in 1987. Wide raschel lace, also produced on warp knitting machines and frequently containing elastomeric yarns was reduced from 40% in 1981 to 19% in 1988 and then further reduced to 14% in the conversion to the Harmonized System, January 1, 1989. Narrow laces which are cut from the wide open work fabric produced on the raschel machine now carry a Harmonized System duty of 16%, also reduced from 19% in 1988. Both reductions were effected in the Harmonized conversion despite the fact that the conversion was designed to be "duty neutral".

Brassieres, in particular, are highly labor-intensive products the market for which, in the absence of meaningful tariff protection could be lost more rapidly to low cost Far East producers. The intimate apparel industry which is the largest single customer of the members of the Warp Knit Division has invested heavily in plants and equipment both in the United States and in the Caribbean in order to compete with low wage countries of the Far East.

Brassiere tariffs are currently 32% for those containing lace, net or embroidery and 18% for others, which were formerly classified as "non ornamented". Brassieres containing lace made on a raschel machine, a product manufactured by members of the Warp Knit Division, now receive a duty of 18% under the Harmonized System. Open-work fabric made on a raschel machine is lace for all purposes except the tariff schedules which consider it "knitted fabric". This anomalous classification has resulted in a reduction in tariffs from 32% to 18% on brassieres containing raschel lace and threatens severe disruption to the lace, elastic fabrics and brassiere industries. We estimate $26 million in lost revenues to the U.S. government as result of probable product shift because of this change.

Warp knit elastic plants employ 3,200 people in 17 operations in New York, Rhode Island, Pennsylvania, Virginia, North and South Carolina, and Connecticut. In the past two years the members of this industry have invested over $25 million in modernization and new equipment. While intensely competitive within this country, the U.S. warp knit elastic fabric industry is one of the most modern and productive segments of the textile industry in the world. The fabrics are highly engineered for stretch and control and finishes withstand the tests of the highest fashion, athletic and industrial requirements. In an effort to stay competitive the members of the Warp Knit Division have also invested heavily in recent years in Quick Response and Just-In-Time Inventory programs in order to help their apparel industry customers become more efficient and compete with the products of low wage countries.

The warp knit elastic fabric industry is healthy and competitive in 1989. We face, however, the threat of continued erosion of our customer base through increasing imports of brassieres, swimwear, activewear and intimate apparel. Maintaining existing tariffs on knitted fabrics, lace and the apparel products which are made from these fabrics is essential to the continued vitality of this segment of the textile industry and its 3,200 workers.

EXHIBIT A

Memorandum on Import Statistics and Tariff History of Warp Knit Elastic Fabrics, Lace, Body-Supporting Garments, Swimwear and Bodywear

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BRASSIERE IMPORTS

In the past ten years, total brassiere imports of cotton and man-made fiber have increased 63% from 10.4 million dozen in 1978 to over 17 million dozen in 1988. Over 65% of this total quantity imports represent Ornamented Brassieres made of cotton and man-made fiber which have a duty of 32% (vs. a 18% duty for Non-ornamented brassieres). Ornamented Brassieres increased 143% from 4.5 million dozen in 1978 to over 11.1 million in 1988.

This "ornamented" group of imports is changed under the new Harmonized System implemented in 1989 as described in the section entitled "Changes Implemented by the Harmonized System". Note that a significant portion of these ornamented brassiere imports will now be imported at a lower duty of 18%.

Total Body Supporting Garments of Man-Made Fiber, which brassieres constitute approximately 95%, have increased 62% from 1978 to 1988 from 10.8 million dozen to 17.6 million dozen. Of this 17.6 million dozen imports in 1988 over 75%, or 13.3 million dozen are 807 shipments. The increase in 807 shipments has increased at a slower rate of 51% over the last 10 years, compared to the 62% increase for total imports of man-made fiber brassieres.

Brassiere imports have significantly increased while domestic production has decreased. This trend is shown by the 39% increase in Import/Production Ratios from 52.6 in 1978 to 78.2 in 1987 (see attached graph).

CHANGES IMPLEMENTED BY THE HARMONIZED SYSTEM

New classifications have been made under the Harmonized System (HS) which went into effect on January 1, 1989. For bras, the "ornamented" distinction has changed to "embroidered". Instead of "non-ornamented", "other" is used to include any item not covered by the "lace, net or embroidery" classification.

Brassieres containing lace made on the raschel machine are no longer considered "lace" under the HS by virtue of the machine on which the lace is made and are classified under the "other" category with a substantially reduced duty of 18% from 32% in the TSUSA.

The former TSUSA and corresponding HS classifications for brassieres are listed below:

TSUSA CLASSIFICATIONS:

376.2425 Cotton Brassieres, lace, net or ornamented 32%

376.2430 Man-Made Fiber Brassieres, lace, net or ornamented. . . . 32%

376.2825 Cotton Brassieres, not ornamented 18%

376.2830 Man-Made Fiber Brassieres, Other 18%

HARMONIZED SYSTEM CLASSIFICATIONS (listed respectively with TSUSA's):

6212.10.1010 Cotton Brassieres; containing lace, net or embroidery .32%

6212.10.1020 Man-Made Fiber Brassieres; containing lace, net or embroidery 32%

6212.10.2010 Cotton Brassieres, other 18%

6212.10.2020 Man-Made Fiber Brassieres, other 18%

- -

As previously mentioned, note the change affecting lace or net articles:

62.10.10 ..containing lace, net or embroidery. . . . . 32% duty

does not include lace made on the raschel machine but is now classified as:

62.10.20 ..other. . . . . .18% duty

This substantial duty reduction will significantly affect the domestic manufacturers of lace and brassieres.

- -

Additional Classifications and duty rates for elastic fabric, swimsuits and bodysuits under the TSUSA and HS are listed below:

FABRIC:

TSUSA:

345.5580 Knit fabrics of nylon containing by weight 5% or more spandex or other elastomeric yarn 14%

HARMONIZED SYSTEM:

6002.30.2000 Other knitted or crocheted fabrics of a width exceeding 30 cm, containing by weight of 5% or more of elastomeric yarn or rubber thread 14%

6002.10.8000 Other knitted or crocheted fabrics of a width not exceeding 30 cm, containing by weight 5% or more of elastomeric yarn or rubber thread: Other 9.3%

6002.20.1000 Other knitted or crocheted fabrics of a width not exceeding 30 cm: Open-work fabrics, warp knit 16%

SWIMWEAR:

"Infants" classification is no longer designated. The descriptions for "ornamented", "not ornamented" and values above and below $10 have been grouped together. The only distinctions among swimwear types is gender and age of intended user.

TSUSA:

384.1700 Other WGI wearing apparel, ornamented; of man-made fiber, knit, swimming suits and other swimwear 30%

384.8300 Other WGI wearing apparel, not ornamented; of man-made fiber, knit; swimsuits and other swimwear; nov $10 . . 30%

384.8400 Same as above with value >$10 . . . . . 17%

HARMONIZED SYSTEM:

6112.41.0010 Women's Swimwear of synthetic fibers of fabric containing by weight 5% or more elastomeric yarn or rubber thread. 26.5%

6112.41.0020 Girls' Swimwear of synthetic fibers of fabric containing by weight 5% or more elastomeric yarn or rubber thread. 26.5%

- -

BODYSUITS AND BODYSHIRTS:

"Ornamented" distinctions are no longer used for classification and gender is no longer differentiated.

TSUSA:

384.1815 Other WGI Wearing apparel, ornamented; of man-made fiber; knit; body suits and body shirts 35%

384.8022 Same as above, not ornamented . .. .$0.13/lb + 32.5%

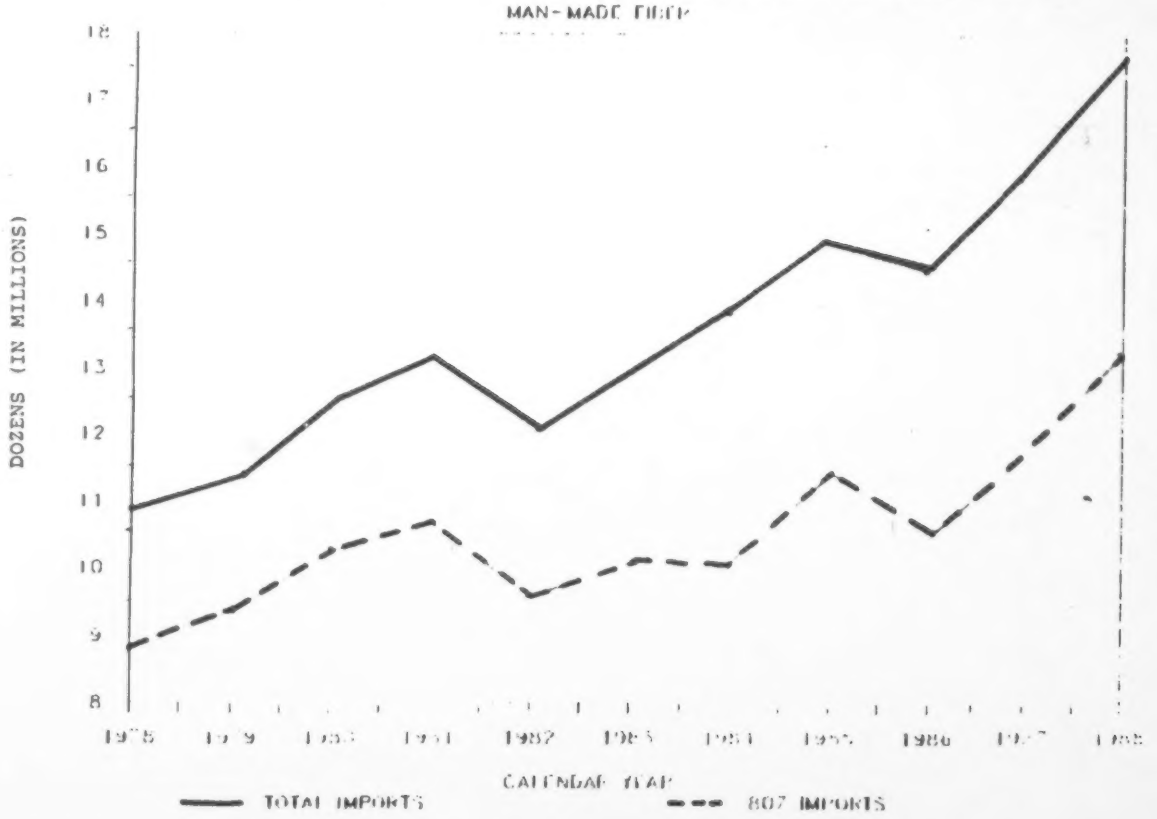
HARMONIZED SYSTEM:

6114.30.2010 Bodysuits and bodyshirts of man-made fibers of fabric containing by weight 5% or more elastomeric yarn or rubber thread. 34.3%

Attachments (5)

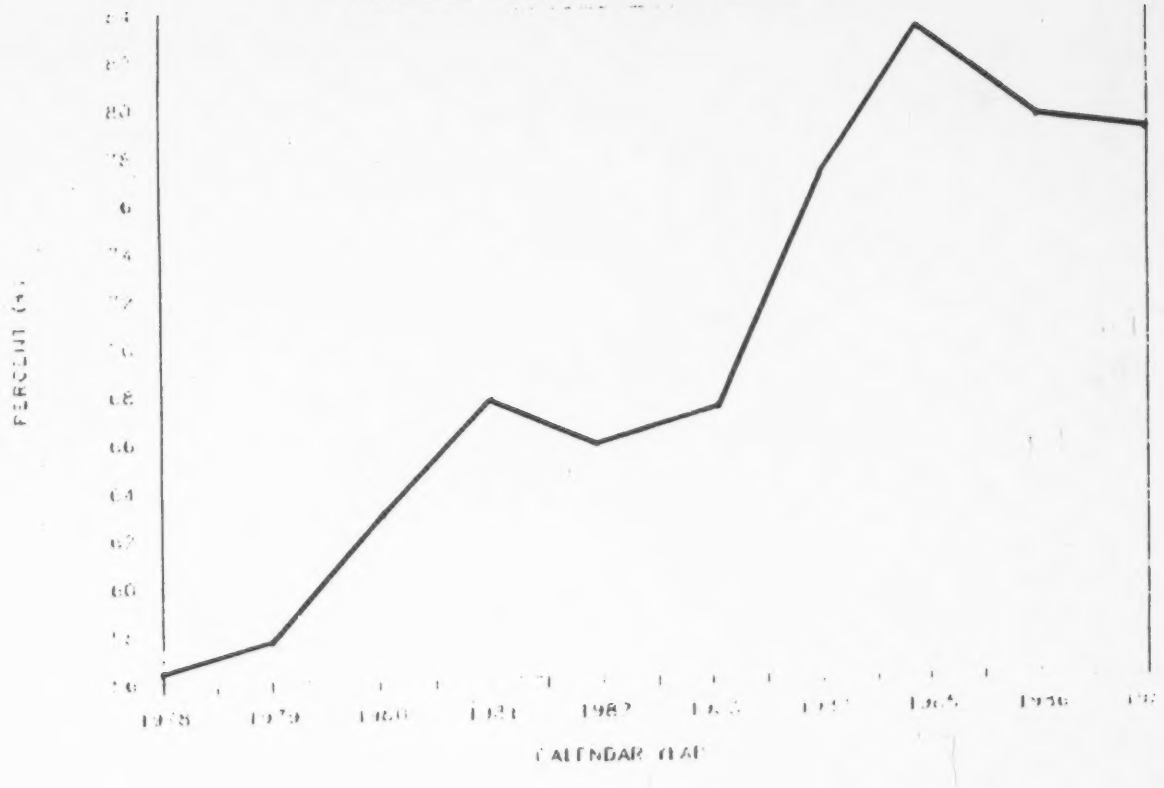
BRASSIERE IMPORTS TO THE U.S.

U.S. IMPORTS - BODY SUPPORTING GARMENTS



U.S. IMPORT/PRODUCTION RATIO

MAN-MADE FIBER BODY SUPPORTING GARMENTS



U.S. PRODUCTION, IMPORTS AND IMPORT/PRODUCTION RATIOS
MAN-MADE FIBER BODY SUPPORTING GARMENTS
CATEGORY 649

Quantity in Dozens (000)

YEAR	PRODUCTION	TOTAL IMPORTS	807 IMPORTS	I/P RATIO FOR TOTAL IMPORTS/PDN
1978	19319	10894	8800	56.4
1979	19828	11407	9400	57.5
1980	19902	12527	10200	62.9
1981	19630	13256	10600	67.5
1982	18332	12039	9600	65.7
1983	19080	12794	10180	67.1
1984	17675	13593	10104	76.9
1985	17510	14667	11462	83.8
1986	17887	14226	10448	79.5
1987	20115	15724	11517	78.2
1988	N/A	17636	13329	N/A

SOURCE: U.S. DEPT. OF COMMERCE AND ATMI TEXTILINE

BRASSIERE IMPORTS TO THE U.S. FOR CALENDAR YEARS 1978-1988
IN DOZENS (000)

TSUSA Commodity	Duty	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Brassieres, Ornamented Cotton and Man-Made Fiber	32%	4564.7	5465.6	6744.7	7294.4	6642.3	7646.5	8323.5	9314.5	8450.5	9625.3	11126.6
Brassieres, Non-Ornamented Cotton and Man-Made Fiber	18%	5887.4	5683.3	5317.7	5375.9	4871.8	4576.7	4366.1	4761.4	5175.3	5597.2	5911
TOTAL BRASSIERES		10452.1	11148.9	12062.4	12670.3	11514.1	12223.2	12689.6	14075.9	13925.8	15222.5	17037.6

SOURCE: U.S. Dept. of Commerce and ATMI Textiline

BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

STATEMENT OF

FLORIDA CITRUS MUTUAL

and

CALIFORNIA CITRUS MUTUAL
CITRUS GROWER ASSOCIATES
FLORIDA CITRUS PACKERS
FLORIDA CITRUS PROCESSORS ASSOCIATION
FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
FLORIDA DEPARTMENT OF CITRUS
FLORIDA FARM BUREAU FEDERATION
GULF CITRUS GROWERS ASSOCIATION
INDIAN RIVER CITRUS LEAGUE
TEXAS CITRUS MUTUAL

regarding

THE TREATMENT OF FRESH CITRUS AND PROCESSED CITRUS PRODUCTS

IN THE URUGUAY ROUND OF NEGOTIATIONS OF

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

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April 28, 1989

I. INTRODUCTION

This Statement of Florida Citrus Mutual, supported by the entire Florida Citrus Community and the vast majority of the U.S. citrus industry, including growers, packers, processors, California Citrus Mutual, Citrus Grower Associates, Florida Citrus Packers, Florida Citrus Processors Association, the Florida Department of Agriculture and Consumer Services, Florida Department of Citrus, the Florida Farm Bureau Federation, the Gulf Citrus Growers Association, Indian River Citrus League, and Texas Citrus Mutual, is filed pursuant to the Subcommittee's notice of March 17, 1989, inviting comments on the status and progress of the Uruguay Round of GATT negotiations. The parties listed above support the maintenance of existing U.S. tariff rates on frozen concentrated orange juice (FCOJ), HTS 2009.11.00 and 2009.19.40; non-concentrated orange juice, HTS 2009.19.20; frozen concentrated grapefruit juice, HTS 2009.20.40; non-concentrated grapefruit juice, HTS 2009.20.20; other concentrated and not concentrated citrus juices, HTS 2009.30.40 and

2009.30.60; fresh oranges, hybrids, lemons, and grapefruits, HTS 0805.10-0805.40; and prepared or preserved citrus products, HTS 2008.30. These comments are intended for the use of the Subcommittee in evaluating the progress to date of the Uruguay Round, and to bring to the Committee's attention the importance of reserving citrus products from tariff reductions.

Florida Citrus Mutual ("FCM") is a voluntary cooperative association whose membership includes more than 13,000 growers of citrus fruit for processing and fresh consumption. Together, FCM and the Florida organizations listed above account for practically all the production and marketing of Florida citrus products. The combined output of the California, Texas, and Florida organizations above accounts for the vast majority of the citrus production in the United States.

Florida accounts for about 70 percent of the domestic production of oranges, about 82 percent of the grapefruit, and most of the domestic production of specialty fruits (such as temples, tangerines, and mandarins). It also accounts for the great bulk of processed citrus (primarily orange and grapefruit juice). About 14,000 growers are involved. There are some 13,000 employees in the 29 plants that process Florida citrus; another 43,000 are engaged in grove care and harvest, and in related services, including research operations and industry organizations. Total indirect employment in the State is estimated at 75,000, for a total of 144,000 persons. See Table 1. Total employment in the national citrus industry is estimated at 230,000 people.

II. SUMMARY OF POSITION

Florida Citrus Mutual and members of the United States industry strongly oppose any reductions in the rates of duty on the citrus products listed above, and have provided full information to the U.S. International Trade Commission to demonstrate the full negative impact of any reductions as described herein. Any reduction of tariffs on citrus or citrus products would have disastrous effects on the industry and the thousands depending on it, without any appreciable benefit to United States consumers. Ongoing developments in the worldwide production of citrus, which has been characterized by the explosive growth of the government-supported citrus industry in Brazil, and the restructuring of the United States citrus industry dictate the maintenance of the tariff system now in place. The major product categories are listed below for reference.

Fresh Citrus:

- Fresh grapefruit,
- Fresh oranges, and
- Specialty fruit (Mandarins, tangerines, satsumas, tangelos, clementines, etc.)

Processed products:

Citrus juices:

- Frozen concentrated orange juice (FCOJ)
- Chilled and canned, ready-to-drink orange juice (SSOJ, and COJ, respectively)
- Frozen concentrated grapefruit juice (FCGJ)
- Chilled and canned, ready-to-drink grapefruit juice (CCGJ)

Prepared or Preserved Citrus:

Prepared/preserved grapefruit
Prepared/preserved oranges, mandarins, and tangerines
Other citrus products, prepared/preserved

III. REASONS FOR THE POSITION OF THE INTERESTED PARTIES

For a number of reasons, all of these products should be reserved from negotiations in the U.S. position at the Uruguay Round. No duty reductions are in order. The Florida growers of citrus and citrus products have been confronted with persistent problems during the past decade. Increasing imports and competitive pressures in export markets have exacerbated domestic difficulties. Duty reductions would contribute materially to the imports, would not generate significant exports, and would add to the growing U.S. trade deficit in citrus, and indeed to the overall trade deficit. Increased imports would contribute substantially to existing difficulties of the domestic growers and would materially hamper the adjustment efforts that are being made. In this regard, FCM and the groups supporting this statement associate themselves with the comments of the Florida Department of Citrus, filed with the U.S. International Trade Commission on March 27, 1989, on the probable declines in price, returns to growers, and acreage which would result from full tariff cuts on these products. The overall losses to growers from increased imports would more than offset any marginal benefits to consumers, which are unlikely to be realized even if the duty is reduced.

Citrus crops are highly susceptible to changes in the weather and to disease. In Florida (which accounts for the great bulk of the domestic crop) freezes have resulted in significant crop losses in some recent years. At the same time, there have been significant moves by Florida growers to migrate to areas of the state less susceptible to freeze damage. Extensive efforts have been made to improve productivity. All these developments have involved substantial capital and related outlays and debt interest costs, that can only be recovered over the long term. Newly planted trees provide no fruit or revenue for the first few years and still more years are needed before maximum harvest is realized.

These conditions alone attach particular importance to the continuance of the existing duties without reduction. A number of other factors make reductions inappropriate.

The past decade has witnessed substantial growth in the output of fresh citrus in many foreign countries or regions. Many significant foreign producers of fruit have established modern, highly efficient plants processing fruit into various citrus products. While U.S. growers and processors are as efficient as any, comparative costs change markedly when grove and related labor is compared and when -- because of foreign subsidies and government assistance -- relative capital costs are factored.

Most of the growth abroad has been in excess of home market demand. The surpluses thus created are seeking foreign market outlets -- in some instances at distress prices. Duty reductions would provide additional incentives for the diversion of these surpluses to the United States.

The United States citrus industry is on an unequal footing with its foreign competitors for another important reason: subsidies. In many of the major foreign producing areas, the stimulus for uneconomic increases in output of fresh fruit and processed products has been due to substantial government

assistance in a variety of forms. Even where Governments have reduced or discontinued subsidies after the industries in question are fairly well established in their home markets, and entrenched in foreign market outlets, the impact of those imports continues in the form of competitive pressures which would not otherwise exist.

Domestic output lost to subsidized exports results in lower production, reduced economies of scale, higher unit costs, and reductions in employment and other productive resources. Abroad, actions taken to subsidize domestic production are almost invariably accompanied by measures to insulate home markets from imports from outside sources - or to provide assurance of minimal income losses from imports. These market insulation measures have trade-distorting effects of their own by causing diversions from the protected to unprotected outlets.

This complex of external factors has an extraordinary impact on the U.S. industry. As indicated in the following tabulation, total U.S. imports of citrus have risen dramatically the past five years -- both in the aggregate, and in each of the major categories.

Export shipments of fresh products increased by $41 million dollars from 1982 to 1987 -- ten percent -- but the imports, from a much lower base, increased at a much faster rate (63 percent). Juice imports rose dramatically (by 33 percent) while the exports fell proportionately. The imports of prepared or preserved products were up 37 percent while the exports of these products declined.

Table 2
Citrus: U.S. Imports and Exports of Fresh and Prepared Products, 1982 - 1987

	1982	1987	Percent Change
	(Million Dollars)		%
U.S. Imports:--			
Fresh	7.4	20.1	63%
Juices	331.4	498.0	33%
Prepared or preserved	44.4	71.0	37%
Total	383.2	589.1	35%
U.S. Exports:--			
Fresh	352.3	393.1	10%
Juices	168.4	128.3	-31%
Prepared or preserved	4.2	4.0	- 5%
Total	524.9	525.4	0%

Source: Florida Department of Citrus

The U.S. trade balance in the citrus sector obviously is eroding rapidly. Overall, the United States had a favorable trade balance of $142 million in citrus and citrus products in 1982. Just five years later, that balance had become a deficit of about $64 million. The outlook is for that trend to continue. Further reductions in the duties would most surely accelerate the worsening trade deficit, and beyond question would increase the difficulties of the domestic industry significantly.

IV. AN OVERVIEW OF WORLD CITRUS

A. Fresh Citrus Products

Commercially, the most important fresh citrus products are oranges, grapefruit, and specialty fruit (such as tangerines and tangelos, and mandarins). In the United States, about 993,000 acres were devoted to citrus crops in the 1987-88 season. The total farm value of the crops was about $1,967 billion.

While all of the fresh citrus products are important contributors to farm incomes in the United States, oranges, and the products derived from oranges, are by far the most important. In 1987, for example, the farm value of the orange crop was $1.3 billion, or approximately 67 percent of the farm value of all citrus. The balance of the farm income in the citrus sector was from a variety of products such as tangerines, tangelos, mandarins, lemons and limes.

B. Processed Citrus Products

Processed citrus products are comprised principally of juice (mainly orange and grapefruit) and blends, and canned sections. Table 2 is indicative of utilization in the United States based on Florida operations in the 1987/88 season.

V. DISTRIBUTION OF WORLD OUTPUT

Global production of fresh citrus is concentrated in three major producing areas outside the United States - Latin America, the Mediterranean Basin. Production in these areas is increasing rapidly. Data of the Food and Agriculture Organization of the United Nations indicates that while the output of a number of countries outside these three areas (e.g., China, South Africa, and Australia) is small, output in these other areas has also been growing sharply. Some of these relatively new producers will become important factors in the world trade in fresh and processed citrus in the foreseeable future. Australia, for example, is actively promoting its exports of fresh oranges in many foreign markets. Other countries are aggressively pursuing export strategies as well.

A. Relative Production Trends In The United States and The World.

Over the longer term, world production of citrus outside the United States has grown dramatically, while that of the United States has trended downward.

As the following tabulation shows, global production of fresh citrus outside the United States (as measured by oranges, grapefruit, and tangerines) is indicated by the Food and Agricultural Organization of the United Nations (FAO) to have increased by some 24 percent since the late 1970s. In contrast, U.S. production declined dramatically from about 13.5 million metric tons to about 10.5 metric tons, or about 22 percent. The United States' share of total world output declined from about 25 percent to about 18 percent in the period.

Table 3

Fresh Citrus: Recent Changes in World Production

	Crop Year Averages		
	1976/77 through 1980/81	1985/86 through 1987/88	Percent Change
	(1,000 Metric Tons)		
Rest of World	39,596	49,028	+24%
United States	13,493	10,461	-22%

Source: Food and Agriculture Organization of the United Nations.

The indicated inverse relationship between the growth in output in countries outside of the United states and in production in this country has significant explanation in two important factors. Increasing production abroad reduces U.S. export opportunities. At the same time, it increases competitive pressures in the United States from imports (either as fresh fruit, or in products processed from such fruit).

For the most part, these changes, or trends, have been pervasive as to type of fruit. As the following tabulation shows, U.S. output of oranges decreased by 23 percent from the late 1970s, through the crop years 1985/86-1987/88. At the same time, output of oranges in the rest of the world rose by 25 percent.

Table 4

Comparative Production Data: Oranges, Tangerines and Grapefruit, in the United States and the Rest of the World

	Crop Year		
	1976-77 through 1980-81	1985-86 through 1987-88	Percent Change
	(1,000 Metric Tons)		
Oranges:			
United States	9545	7322	-23%
Rest of World	27093	33843	25%
Grapefruit:			
United States	2634	2301	-13%
Rest of World	1653	2090	26%
Tangerines:			
United States	429	309	-28%
Rest of World	7013	7997	14%

Source: FAO

Grapefruit output outside the United States rose by about 26 percent; in the United States it fell 13 percent. The comparable figures for tangerines were +14 percent and - 28 percent. The increases in foreign output clearly have limited U.S. export opportunities and resulted -- at the expense of U.S. producers--

in significant increases in U.S. imports of fruit and of products made from fruit.

VI. THE ROLE OF FOREIGN GOVERNMENTS IN CITRUS

The pervasive nature of the increases in output of citrus outside the United States in all citrus categories is apparent from the foregoing data. To a very large extent this growth has been accelerated by extensive foreign government assistance.____

A. Brazil

Brazil has heavily subsidized domestic production and exports of a wide range of products -- frequently to the distress of competing U.S. producers. Since 1983, for example, over 20 complaints have been heard by the USITC under Title VII of the Tariff Act of 1930, as amended, respecting imports from Brazil either at less than fair value, or at prices reflecting production and/or export subsidies.

With respect to citrus, Brazil has heavily subsidized the production, processing, and exportation of frozen orange concentrate to a point at which it has become the world's largest producer of both oranges and orange juice. Home market consumption of orange juice is negligible relative to total output and virtually all (over 95 percent) of Brazil's output is exported as frozen concentrate. Largely as a result of such assistance, Brazil is now the world's largest exporter of orange juice concentrate, and it dominates world markets.

The Commission has conducted three investigations of Brazilian concentrated orange juice under the unfair trade statutes. Pursuant to a complaint filed in 1982 under the countervailing duty statute, Brazil, in a suspension agreement signed in February 1983 with the Department of Commerce, agreed to offset completely (through an export tax) the amount of the net subsidy determined to exist for the product. Later, after a request by Brazil for a continuance of that investigation, the Commission determined that an industry in the United States was threatened with material injury. Frozen Concentrated Orange Juice from Brazil, Inv. No. 701-TA-184 (Final)(July 1983).

In 1984, three Brazilian producers and exporters of FCOJ asked for a review of the Commission's foregoing material injury determination because of changed circumstances. After a new investigation, the Commission determined that U.S. producers would be materially injured, or threatened with material injury, if the suspension agreement were modified or revoked. Frozen Concentrated Orange Juice From Brazil, Inv. No. 751-TA-10 (December, 1984).

In April of 1987, pursuant to a new investigation, the Commission determined that U.S. producers were materially injured or threatened with material injury by imports from Brazil of frozen concentrated orange juice sold at less than fair value. Frozen Concentrated Orange Juice From Brazil, Inv. No. 731-TA-326 (Final)(April 1987).

Characteristically, as in the case of Brazil, initial subsidies are substantial. Governments often reduce or eliminate them, once the home industry becomes well established and is entrenched in foreign markets by reason of the unfairly traded merchandise. The longer term impact of past practices are not reckoned under the unfair statute. After the action is terminated, or is corrected, the exporting industry continues to be a formidable competitor because of its size and market power. In the importing country, the impact continues to be reflected in terms of higher fixed and variable unit costs because of the reduced market share held by the domestic producers.

The Government of Brazil participates in some measure, directly or indirectly, in pricing arrangements both for oranges for processing and for the concentrate produced therefrom for export. The National Monetary Council is responsible for the formulation of foreign exchange policy. In accordance with its guidelines, the Central Bank issues regulations relating to exchange controls. CACEX, the Foreign Trade Department of the Bank of Brazil implements the Council's decisions and issues export certificates which are used to fix the price at which the export proceeds are translated into cruzados. Prices for oranges delivered by growers to processors during a given year are determined through "negotiated" arrangements which are approved (and presumably enforced) by the Government.

Brazil denominates its exports in dollars. Export proceeds are surrendered to the Central Bank at rates determined under the cruzado exchange regime. From June 1982 through March 1986, the government maintained export quotas and minimum export prices for orange concentrate to maximize foreign exchange receipts. Price adjustments were made frequently to accommodate to changes in world supply conditions. Price adjustments designed to maximize foreign currency earnings were made frequently and had little or no relevance to internal cost changes for either the fruit or the processed product.

Beginning in approximately January 1987, the New York FCOJ futures market was established by Brazil as the basis for determining the export "reference" price, which acts as the minimum export price. According to the Department of Agriculture, the U.S. tariff and delivery costs to Florida buyers (including brokerage, freight, insurance, port fees, the Florida equalization tax, and inspection fees) are subtracted from the New York futures price to arrive at the Brazilian export (reference) price.

The futures price in New York, however, is heavily influenced by the supplies of oranges and concentrate in Brazil and the amount of Brazilian concentrate in the United States. Thus the futures price, and hence the Brazilian export reference price, continues to be dominated by Brazilian supplies.

Anomalies appear. When subsidies to the processing industries in the EC result in uplifts for imports to protect the Community's minimum reference price, for example, the price for the Brazilian concentrate delivered to the United States can be lower than the price in the Common Market. Use of New York futures as a basis for the reference price can result in differences in the spot and long-term contract prices for Brazilian juice in Europe and in the United states. There often is an inverse relationship between the quantity of the concentrate moving from Brazil to the United States and to Europe so that when the quantity moving to one market rises, it falls in the other. This in turn can influence the futures price, and then the Brazilian reference price.

In Brazil, orange prices for growers are also tied, through participation plans, to the New York futures settlement price, which as noted, is strongly influenced by the volume of Brazilian supplies and exports. The use of the dollar as the intervention currency for foreign exchange purposes in Brazil tends to insulate the export price from cruzado swings in foreign exchange markets. But such stabilization does not provide for the effects of domestic inflation upon independent, Brazilian grower costs, and hence the cost of oranges from independent growers to the processor. Periodic adjustments are necessary in the grower price for oranges to offset the effects of inflation- - a process that involves at least some consideration of the dollar/cruzado exchange rate and other factors not directly related to the cost of growing.

There are some aspects of a cartel in these trade and price mechanisms. At the same time, the prices for concentrate produced in the United States from domestic fruit, and in turn the price received by domestic growers of oranges, become hostage to a complex pricing system designed to benefit Brazilian producers. The system obviously is influenced by market distortions growing out of Governmental interventions both in Europe and Brazil. The trade variables thus introduced do not systematically tie prices to costs or to free market considerations. Most assuredly, the decision-making processes fail to take any account of the needs of, or benefits to, U.S. consumers. On the other hand, the complex system tends to place U.S. producers at a substantial competitive disadvantage.

B. The European Community

The agreement reached with the EC in August of 1986 provided for a phased increase in market access for citrus and citrus products into the EC. Trade distorting measures remain.

In compensation for eliminating citrus subsidies on shipments made within the Community, the EC made adjustments in the minimum domestic prices used for determining producer subsidies. Imports are subject to an uplift to this minimum "reference" price. The effect is to trigger countervailing duties and divert shipments from outside sources to other countries.

Substantial subsidies are granted on exports of oranges, mandarins, and lemons (see table 5). For oranges, the subsidy (depending on the type) runs between $104 to $222 dollars per metric ton for shipments to East Europe and between $67 and $157 per metric ton for other exports. The processing subsidy for oranges (between $89 and $131 per metric ton) is also substantial.

C. Spain

Spain will be fully integrated into the EC within a ten-year transition period for fresh citrus, and within seven years for processed products. Pre-export credits, at non-subsidized commercial rates, are available on consignment exports.

The Department of Agriculture indicates that Spanish citrus exports to the EC have been "routinely hit by countervailing duties within the Community," because of the failure of the Spanish exports to meet the designated reference price set by the Community.

Spanish juice producers are eligible for aid for the processed fresh oranges and lemons -- subject to quantitative limits. Canned satsumas appear not to be available for such aid but they are eligible to import sugar under a drawback system that avoids the higher priced, price-supported sugar of the E.C. Spanish processors of satsumas claim a dynamic, self-sufficient industry producing a high quality product, and they allege a significant competitive advantage because of cheaper tinplate, and low labor costs. Spain reportedly is making substantial efforts to expand exports of satsumas to both the European Community and to the United States.

D. Morocco

Morocco is a producer of high quality fresh citrus. Until recently, exports were under the jurisdiction of the Office for Commerce and Exports (OCE), a state monopoly. While trade in fruit was liberalized during the 1987/88 season, about 15 percent of the export shipments continued to be by OCE. Most of the remaining exports reportedly were by the Atlas Fruit Board -- a group representing several large shippers.

The use of gate prices in the Community resulted in the application of countervailing duties for Moroccan fruit for 40 days in November-December of the 1987-88 season. In the past, Spain has disadvantaged Moroccan shipments to the EC by restricting the use of Spanish transportation facilities. The Department of Agriculture reports that exports from Morocco to the Community during 1988/89 will benefit from an agreement with Spain that allows the transport of Moroccan citrus across Spanish territory beginning in November of 1988, but that arrangement will be limited to 15,000 tons in 1988 and 30,000 tons in 1989. The agreement calls for gradual increases in the limit until total liberalization of transport for Moroccan fruit is achieved.

Concerned that its fresh citrus exports will suffer from the entry of Spain into the EC, Morocco has made substantial efforts to shift sales to other markets, with notable success in Eastern Europe and Scandinavia, and it is logical to assume that Morocco will be a future factor in other markets as well.

Fruit processing is a state monopoly, under "FRUMAT", and according to the USDA the state is expanding its capacity to produce and export juice.

E. Israel

Agriculture in Israel is regulated by a national plan developed and implemented by the Ministry of Agriculture, with the assistance of established interest groups such as grower and processor associations, and labor unions. Through the years, the plan has provided important assists to organizations involved in the growing, processing, and marketing of citrus.

Under the so-called Law of Encouragement of Investment in Agriculture, farmers who planted orchards (including citrus) were eligible for a 50 percent grant on the cost of establishing the orchard at a subsidized interest rate for 40 percent of the costs, income tax forgiveness for the first three productive years of the orchard, and reduced tax rates for the fourth and fifth years. Assists were also available for facilities utilized in the processing and marketing of citrus.

Farmers are also aided by low land rents administered by the Land Authority whose objective is the provision of low-cost land for those engaged in farming. According to the Department of Agriculture, over 90 percent of the farmland is leased from the State, through the Land Authority, at "only nominal rents on long-term land leases."

During the past decade, the industry reportedly has been under financial strain, reflecting the reduced profitability of citrus from exports because of foreign competition. The industry is said to be seeking financial assistance from the Government, and reorganization, and the Ministry of Finance reportedly is considering the creation of a $15 million stabilization fund.

According to the Department of Agriculture, Israeli exporters are "looking...closely at the U.S. market because of the [U.S.-Israel Free Trade] Agreement and because of the need to divert exports from the European Community (EC) where demand for many Israeli export commodities is stagnant and where Israel faces increased competition from the new members, Spain and Portugal." As the Department of Agriculture notes, "During the next decade the United States is likely to be a growth market for Israeli exports of fresh oranges [and] citrus segments...." Such imports into the United States may, in fact, be at substantially reduced tariff rates under the FTA, regardless of the outcome of the Uruguay Round multilateral agreements, and will already be placing strains on the U.S. industry.

F. Greece

Greek citrus exporters, processors, and growers benefit from the same type of subsidies available to full members of the European Communities, such as Italy, but at lower rates. Until recently, Greek exports were under the direction of AGREX, the state-controlled trading agency which was the only authorized exporter. Greek agricultural cooperatives are said to oppose Government initiatives to permit private traders to export.

VII. THE ELASTICITY OF FOREIGN SUPPLIES

By any measure, the elasticity of foreign supplies of citrus and citrus products is extraordinarily high. All evidence is that it is increasing sharply. For several years, world citrus output has risen rapidly. Global production was at a record of 61 million metric tons in the 1987/88 season. Indications are that output will continue to increase strongly for the foreseeable future. Table 6 shows, for the major fresh citrus products (oranges, grapefruit and tangerines), recent and the basic long-term trends in production, by area and by country.

Because of the distorting effects of essentially short-term changes in the weather and growing conditions, the discussion that follows is primarily in terms of pertinent annual crop-year averages rather than year-to-year changes. Annual crop-year losses or changes in one country in a given region because of weather tend to be short-term, and they are often counter-balanced by offsetting gains in another country or countries in the same area.

Average annual fresh citrus production rose by about 20 percent in the Mediterranean basin and in Latin America from the late 1970s through the most recent three crop years (1985/86 through 1987/88). Production in the United States fell 22 percent -- at least in significant part because of displacement flowing from these foreign production gains.

The growth in production in many foreign countries has already exceeded, by a wide margin, the market demands of the host country. There can be no question but that the surpluses will be fiercely promoted in export outlets. Because many of the important producers have taken measures to insulate their own production from import competition, significant portions of these world surpluses will seek the United States market -- at the expense of our own industries, especially if any tariff cuts encourage this diversion.

Following are brief comments on conditions in some of the major producing areas which support the likelihood that these predictions will be borne out.

A. Brazil

The extraordinary growth in the output of citrus in Brazil is attributable in large part to the assistance that has been provided to producers in that country by the central and regional governments. The great bulk of the output has been geared to the exploitation of world markets for FCOJ. Home market consumption is negligible, Brazil's processing and transportation facilities, involving a sizeable capital investment in the most modern of facilities, provide ample capacity to increase its encroachment of the U.S. market should the duties on frozen concentrated orange juice be reduced.

While the increase in the volume of output in Brazil has been without the equal of any other producing area, there can be no question but that there is substantial capacity to increase

output further -- by substantial amounts -- in the near term. As indicated in Chart A, the total number of orange trees in Brazil has expanded exponentially since the 1982\83 crop year. The growth in nonbearing trees is also up markedly. The spread between the growth lines for the two categories indicates prospective increase in harvestable acreage.

Brazilian processors reportedly are expanding processing capacity. The probability is very high that much of the increase in output would find its way to the U.S. market -- to the disadvantage of U.S. producers -- if the duty on concentrated citrus juices is reduced. With the entry of Spain into the EC (coupled with significant and growing capacity in Italy, and elsewhere in the Mediterranean basin), Brazil would have the impetus to divert supplies to the United States where the only market restraint is that it sell at fair value. (Even that restraint under the existing antidumping duty order on frozen concentrated orange juice from Brazil applies to only approximately half of the Brazilian processing industry, since one of the two largest processors in Brazil, Sucocitrico Cutrale, was excluded from the order.)

B. Mexico

Mexico has been an important, but limited, source of citrus juice concentrate, particularly in periods when Brazilian supplies are short or diverted to other markets because of price anomalies. It is likely that the reduction of import duties would stimulate increased importations from that country, given its close proximity to the United States and the generally high costs of transporting bulk concentrate over longer distances.

Oranges normally account for more than two-thirds of Mexico's citrus harvest. According to the Department of Agriculture, in the recent past there has been "a 127 percent expansion in harvested area [in Mexico]." The Department concludes that the outlook "for Mexican orange production is bright given that more than 40 percent of total planted acreage has not yet reached bearing age", (emphasis added). The Department estimates that in the 1988/89 season, a "120,000 ton increase in the quantity of oranges utilized by processors will result in an improved export availability for orange juice." The reported grove expansion indicates continued growth in the availability of fruit. A reduction in U.S. import duties would encourage further shipments to the U.S. market in competition with U.S. producers, both of fresh fruit and processed products.

C. The Mediterranean Area

In the Mediterranean area, the principal producers, as measured by the aggregate volume of fruit, are Spain, Italy, Israel, Morocco, Egypt, and Turkey. Production in each of these countries has registered impressive gains. Many other countries in the area produce citrus in small amounts, but their aggregate output is large as well.

Spain is the world's largest exporter of fresh citrus; normally, less than 10 percent of its crop has been utilized by the processing industry. While the 1988/89 harvest is expected to be down from last year because of poor growing weather, the Department of Agriculture predicts that because of its efforts to maintain exports, Spain will be shipping volumes close to the levels of the prior year.

Spain's output of fresh fruit and processed products can be expected to expand as a result of its phased (10-year) accession to the European Community. During this period, Spain's benefits from the Community's agricultural programs will not be equal to those available to full members, but they will expand. Even Spanish producers reportedly feel that its trade relationship

with the Community is disadvantageous to third-country Mediterranean suppliers, so that the growing volume of output from non-E.C. countries in the Mediterranean area will be compelled to search for other markets.

At the same time, Spain is attempting to expand exports outside the EC. A Spanish citrus industry team has recently visited Singapore, Hong Kong, Taiwan, and Japan on a trade promotion mission. Spain's processing sector now absorbs "only a modest portion of total production" of fresh citrus, but processed output will undoubtedly expand as Spain's membership in the EC is phased in and its producers become fully eligible for EC processing subsidies -- beginning with the 1990/91 season.

According to the Department of Agriculture, about 35 percent of Spain's satsuma crop is processed into canned sections in highly automated plants utilize modern equipment. The foreseeable future should bring a significant increase in Spanish supplies of these products in foreign markets, including the United States.

Italian citrus production has expanded some 17 percent since the late 1970s. During the 1987/88 season, when supplies were temporarily affected by adverse weather, output was about 10 percent higher than in 1983/84. E.C. subsidies (see discussion above) are available for Italian processors, and trade reports indicate they expect to double the output of orange juice in the near future. This would reduce sales opportunities of Brazil in the E.C. and put pressure on it to increase sales in other markets, such as the United States.

More than two-thirds of all of Israel's fresh citrus exports has been to the E.C. However, the Israeli orange exports face strong competition from the high-quality fruit of Spain and Morocco, and the increasing production of citrus in Italy. These developments alone -- quite aside from the availability of production from other Mediterranean countries -- will likely cause diversion of Moroccan produce to other market outlets. The industry there receives strong Government support, and as the Department of Agriculture acknowledges, exporters look upon the U.S. market as an attractive, and obvious, target.

Trade reports indicate that as a result of increased fresh citrus competition in world markets, many within the Israeli industry are of the opinion that Israel must expand the production of citrus juice for export. According to the USDA, juice extractors in Israel are operating at 50 percent of capacity (1987/88 season) so that it has substantial excess capacity and incentive to increase processing activity. In addition, Israel already exports more than it produces, presumably blended product using imports from Brazil and elsewhere.

The Department of Agriculture also indicates that a number of processors have offered financial aid to investors willing to plant groves for the production of citrus for processing. Under the proposals, fruit for processing would go directly from the field to processors, thus saving in the costs of intermediary packing house operations (currently provided for by law) which involve relatively large charges. The proposal also provides for long-term contracts (as a form of income protection) for growers that agree to supply processors directly.

The quality of Greek exports of fresh citrus is said to have been low, and most of the exports have been destined for the USSR and Eastern Europe. The USDA indicates that the industry is shifting production to Valencias and tangerine-type fruit favored by West European consumers. Greek producers are eligible for EC subsidies. Any increase in output there would, again, result in higher volumes and additional price pressures on world markets.

In summary, throughout the world, the governments of many of the major foreign producers interface with their industries to increase production and exports and to limit the effects of their own imports. Available supplies are large and they would move quickly to capitalize on the opportunities afforded by duty cuts.

In Brazil, the industry and the Government, would take every measure to exploit additional marketing opportunities from U.S. duty cuts in the immediate future by pricing practices designed to increase market share. Others will do the same. The phase-in of duty concessions would also result in a phasing of the price reductions only to the extent necessary to assure a competitive advantage. There would be no great rush on the part of Brazil to make cuts for the sake of consumers -- only for the purpose of dislodging competitive U.S. producers of concentrate at the wholesale level.

As output continues to rise abroad at rates that exceed home market demands, the probability of world surpluses in citrus and citrus products is a certainty. It is also highly certain that a large part of that surplus would target the U.S. market in response to duty reductions. Studies of the Florida Department of Citrus suggest a high degree of cross-price elasticity between domestic and foreign citrus and citrus products at the wholesale level. The rising volume of world supplies will increase the price sensitivity of products competing for markets. Rising U.S. costs limit the extent to which U.S. producers can reduce prices competitively to meet lower priced competition from abroad because of tariff concessions.

VIII. THE PROBABLE EFFECTS OF TARIFF CONCESSIONS

Because Florida accounts for the great bulk of the United States output of fresh and processed citrus, the effect of any tariff reductions will impact primarily upon the growers and processors -- and related entities and economic activities -- of that state.

Dramatic structural changes and increases in world supplies of citrus and citrus products already are having a profound effect on the U.S. trade position. Changes in the basic long-term competitive position of the United States for this sector, regardless of year-to-year shifts due to weather conditions, are critical to an understanding of the effects of tariff cuts.

Since 1983, the total value of U.S. citrus imports have risen over 50 percent. On the export side, the value of shipments to foreign countries has been virtually unchanged. From 1983 to 1987, the positive trade balance in citrus evaporated. In 1987, the imports exceeded the exports by over $160 million.

These data provide a fair indication of the progressive, long-term changes that are occurring in the U.S. trade position to the detriment of U.S. citrus overall. Of equal significance is the pervasive nature of the import increase.

As Table 7 shows, there were significant increases from 1983 through 1987 in each of the major categories. Fresh citrus imports rose nearly three-fold. Although the increase is measured against a low base, it is indicative of increasing foreign production in many foreign areas actively seeking export outlets.

During the brief four-year span in question, U.S. imports of prepared or preserved citrus products rose over 60 percent. For citrus juices, the gain was well over 50 percent. It is probable

that few other agricultural sectors have experienced increases of such magnitude.

Table 7

1983-87 IMPORT INCREASES OF CITRUS
BY MAJOR CATEGORY
[millions of dollars]

Product	1983	1987
Fresh Citrus	7	20
Prepared or preserved	44	71
Juices	383	589

A. Effects On Growers; Conditions Within The Florida Industry

The worsening trade posture of domestic citrus in world trade indicates, we believe, the urgent need to avoid duty reductions. Export markets are stagnant, or eroding, while the industry is confronted by substantial, long-term import increases. At the same time, there are significant internal problems in the domestic industry that warrant serious consideration in connection with any decision respecting the import duties.

Severe weather conditions during several past growing seasons have periodically resulted in crop losses in Florida. There have also been large losses in harvested acreage, and fruit production, because of disease. These two factors combined have resulted in substantial costs involving the replacement of trees and grower migrations to areas of the state less susceptible to freeze. At the same time, the industry has taken important measures to improve yields and productivity.

All of these factors obviously have involved substantial cost, as the Commission has recognized it its prior investigations of the citrus industry. See Frozen Concentrated Orange Juice From Brazil, 731-TA-326 (Final)(April 1987). Moreover, they involve conditions unique to citrus that should be factored into any evaluation of the effect of prospective increases in imports that will inevitably follow duty cuts.

No revenues at all are realized for the first three years after a new planting. Twelve years are required for an orchard to reach maximum productivity. Thus, for the first three years, capital expenditures and operating expenses are essentially out-of-pocket at a new orchard. (In fact, many of these pre-production expenses must be capitalized and depreciated over the productive life of the grove, so any tax benefits in these early years are limited.) For several years thereafter, until the orchard reaches maximum productivity, total capital and operating costs may not be fully covered by revenues. Under these conditions any increase in the imports flowing from a duty cut pose a unique, and additional hardship and burden. Many of the foreign competitors of U.S. citrus growers receive government assistance in those years of zero or marginal output, while U.S. growers are unsubsidized.

B. Trade Effects Of Duty Reductions On Consumers And On Producers

As the Commission has recognized from past investigations, competition for citrus at the wholesale level is highly price sensitive. In this regard, past injury determinations of the Commission respecting unfairly traded FCOJ from Brazil have been of material benefit. Duty cuts in the sector would significantly erode benefits from that action, and could hardly be justified.

For orange juice, the quantity of imports is highly correlated with the price spread between the product of Florida at the wholesale level and the imports. As that price spread increases, there is a corresponding, exponential increase in the imports.

Studies of the Economic Research Division of the Florida Department of Citrus, indicate that a one cent per pound decrease in the rate of duty for orange concentrate would result in an increase of some three percent in the volume of the imports. These data provide insight into the profound impact of any duty reductions on orange concentrate and they are indicative, as well, of the possible trade impacts of duty reductions on other products, such as grapefruit concentrate and fresh citrus products.

It is highly unlikely that duty cuts, and increased imports, would significantly enhance domestic demand or consumption. Accordingly, any increase in offshore supplies would involve substantial displacement of domestic output -- almost on a one-for-one basis. The explanation is found in the nature of the demand at the consumer level.

During the past several years, per capita consumption of all fresh citrus has averaged about 26 pounds annually. Since the early 1980s, it has ranged between 24 and 29 pounds with no indicated trend (see Table 8). For processed citrus, per capita consumption has ranged between 80 pounds and 90 pounds, and averaged about 86 pounds annually -- again, with no indicated trend. Citrus, in one form or another, already has a high level of penetration in most U.S. households (85 percent in the case of orange juice, for example).

At the retail level, the duties constitute but a small proportion of the total selling price. Not all of the duty cuts would be passed on to the consumer, so that the price effect at the retail would be even smaller and it is clear that the net consumer benefit would be small in the long term. There can be little quarrel with the economic reality that the duty cuts would not increase demand significantly or improve the demand outlook for the domestic industry in the face of increased import competition.

The absence of a significant long-term demand response at the consumer level is highly significant. Under these circumstances, by far the major effect of the increase in imports will be the substantial long-term displacement of domestic production.

Table 8

CITRUS: PER CAPITA CONSUMPTION IN THE U.S.
(Fresh Weight Equivalent Basis)

Year	Oranges	Grape-fruit	Tan-gerines	Lemons & Limes	Total Fresh	Processed Citrus
			(Pounds)			
1980	15.8	8.0	.7	2.4	28.9	83.7
1981	13.6	6.9	.8	2.4	25.0	79.4
1982	12.7	7.5	.7	2.5	24.7	84.6
1983	16.1	8.1	.7	3.0	29.3	90.6
1984	12.8	6.3	.6	2.9	24.0	78.9
1985	12.4	5.7	.5	3.1	23.4	85.7
1986	14.6	6.6	.5	3.2	27.5	90.5
1987	14.3	6.7	.5	3.1	28.2	86.7
1984-87 average	13.5	6.3	.5	3.1	25.8	85.5

Source: Florida Agricultural Statistics; Citrus Summary, 1987-88. Florida Department of Agriculture.

In the case of frozen orange concentrate, for example, the studies of the University of Florida indicate that a one cent duty reduction in tariff for orange concentrate would result in a three percent increase in imports. For the reasons noted, virtually all of this impact is at the producer level.

At wholesale -- the first point of competition -- a difference of as little as one cent per pound of solids for orange concentrate is sufficient to cause buyers to shift the source of supply. This translates to an on-tree value of about five to six cents.

In the short term, U.S. producers would be compelled to attempt to meet the lower prices of the imports. But in the intermediate and longer term, the loss or reduction of revenue both for new and mature groves would mean the sharp curtailment of the productive resources devoted to the production and processing of fruit, and in associated activities. Because of the nature of citrus, the exemplar provided by orange concentrate translates to other citrus and citrus products as well. Over time, an investment conservatively estimated at some $6 billion in Florida would be at significant risk, as would direct and indirect employment.

These must be considered probabilities, not speculations. Rising levels of fruit output in the Mediterranean Basin and in many other countries indicate a substantial increase in exportable supplies searching for foreign market outlets. Many of these countries are also increasing their processing capacity -- indicating both a near and longer term expansion of exportable supplies of citrus products.

IX. CONCLUSION

Developments abroad -- significantly under government programs designed to encourage output and exports -- already are impacting U.S. export potentials. As noted herein, imports in all categories are increasing sharply. Additional foreign supplies will move quickly to the United States in response to tariff cuts with prices, at wholesale, designed to increase market share and import penetration. However, benefits to consumers through reductions at retail levels would be minimal, since those reductions would account for only a fraction of any duty reductions.

Under the conditions described, tariff cuts would have extreme, adverse effects on U.S. producers. It is urgent that no duty reductions be made in this important, and vulnerable, agricultural sector.

For the foregoing reasons, Florida Citrus Mutual and the members of the United States citrus industry recently testified before the U.S. International Trade Commission and strongly urged that the Commission report to the President that any tariff reductions on the listed citrus and processed citrus products would have serious adverse affects on the domestic industry.

These organizations believe that this Subcommittee should be fully informed as to the nature of, and changes in, the U.S. and worldwide citrus industry. The United States should take the position at the Uruguay negotiations that these citrus fruits and processed citrus products should be excluded from tariff reductions.

Respectfully submitted,

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TABLE 1

Table 2. Florida: estimated citrus industry employment (direct and indirect).

DIRECT

Growers	14,000
Citrus Pickers	25,000
Other Harvest	2,250
Grove Care Workers	6,500
Fresh Fruit Packing	8,000
Processing	13,000
Inspection Services	650
Florida Department of Citrus	140
State Research Services	145
Federal Research Services	95
Industry Organizations	75
Total	69,855

INDIRECT

Sector	Direct	Multiplier	Indirect	
Agriculture	47,750	1.353*	16,856	(0.353 X 47,750)
Food Processing	22,105	3.614*	57,782	(2.614 X 22,105)

Total Direct	69,855
Total Indirect	74,638
Total State Employment	144,493

*SOURCE: Food and Resource Economics Department, University of Florida.

FLORIDA CITRUS UTILIZATION
BY TYPE OF FRUIT, 1987-88

ITEM	Oranges	Grape-fruit	Specialty Fruit 1/.	Total
	(1,000 Boxes)			
Total	141,552	53,027	6,650	201,229
Fresh	10,907	23,150	3,009	37,066
Processed	130,645	29,877	3,641	164,163
Juice:--				
Frozen concentrate	110,206	26,690	2/.	136,896
Canned	904	2,085	2/.	2,989
Chilled Juice	19,535	1,102	2/.	20,637

Percentage Distribution, 1987-88 Season

	Oranges	Grapefruit	Specialty Fruit 1/	Total
Total	100	100	100	100
Fresh	8	44	45	18
Processed	92	56	55	82
Juice:--				
Frozen concentrate	78	50	2/.	68
Canned	1	4	2/.	1
Chilled Juice	14	2	2/.	10

1/. Tangerines and tangelos.
2/. Not readily available.

Source: Florida Citrus Mutual and the Florida Department of Agriculture.

TABLE 5

Citrus Subsidies of the European Community

Product & Date	Penetration Premium	Export Subsidy East Europe	Export Subsidy Other	Processing Support Subsidy	Processing Support Min. Price
		(Dollars Per Metric Ton) 1/			
Oranges:					
Oct-Dec, 88	111-196	102-217	68-133	81-128	143-189
Jan-Sep, 89	113-201	104-222	69-137	83-131	146-194
Mandrines:					
Oct-Dec, 88	165	92	92	---	---
Jan-Sep, 89	169	95	95	---	---
Lemons:					
Oct-Dec, 88	---	191	127	149	249
Jan-Sep, 89	---	196	131	152	255

Source: US Department of Agriculture

TABLE 6

World Production of Citrus
By Crop Years, and Area

Country & Area	Last Three Crop Years			Average During--		
	1985/86	1986/87	1987/88	1976-77 thru- 1980/81	1985-86 thru- 1987/88	Percent Change
	(1,000 Metric Tons)					
World	57,261	60,441	60,764	53,089	59,489	12%
United States	9,956	10,832	11,364	13,493	10,461	-22%
% of Total	17.4%	17.9%	18.7%	25.4%	17.6%	
Rest of the world	47,305	49,609	49,400	39,596	49,028	24%
Mediterranean Regon						
Total.....	14,323	15,831	14,230	12,359	14,795	20%
Spain	3,487	3,853	4,265	2,841	3,868	36%
Italy	3,541	3,864	2,489	2,811	3,298	17%
Egypt	1,397	1,506	1,594	1,014	1,499	48%
Israel	1,250	1,453	1,074	1,495	1,259	-16%
Morocco	1,195	978	1,258	949	1,144	21%
Turkey	975	1,286	1,160	1,034	1,140	10%
Greece	802	1,084	557	648	814	26%
Other	1,676	1,807	1,833	1,567	1,772	13%
Latin America						
Total.....	16,854	17,005	17,664	14,046	17,174	22%
Brazil	11,963	11,920	12,329	9,691	12,071	25%
Mexico	2,124	2,311	2,657	2,209	2,364	7%
Argentina	1,494	1,490	1,350	1,427	1,445	1%
Venezuela	384	388	390	339	387	14%
Uruguay	160	166	178	99	168	70%
Cuba	729	730	760	281	740	163%
Other						
Total.....	4,768	5,560	5,698	2,409	5,342	122%
So. Africa	620	812	800	657	744	13%
China	3,215	3,935	4,025	1,058	3,725	252%
Australia	611	593	645	493	616	25%
USSR	322	220	228	201	257	28%

Source: Food and Agriculture Organization of the United Nations, CCP:CI/ST 89

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BY HAND

The Honorable Sam M. Gibbons
Chairman, Subcommittee on Trade
Committee on Ways and Means
1102 Longworth Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In response to the Subcommittee's request for the views of private sector on the Uruguay Round of Multilateral Trade Negotiations, I am pleased to submit the comments filed by the National Juice Products Association. As explained in the comments, the NJPA opposes a reduction in orange juice tariffs because a reduction will have a serious adverse effect on processors and growers. The NJPA's comments were submitted to the U.S. International Trade Commission and we ask that the comments be included in the Subommittee's hearing record as well.

Sincerely,

Paul Rosenthal

PAUL C. ROSENTHAL

Washington Counsel to the
National Juice Products Association

Enclosure
PCR/kjs

Before the
United States International Trade Commission

In the Matter of Probable Economic Effects on U.S. Industries and Consumers of Modification of U.S. Tariffs and Modification or Removal of Certain U.S. Non-Tariff Measures	Investigation No. TA-131(b)-14 CITRUS JUICE (HTSUS Heading 2009)

STATEMENT OF

THE NATIONAL JUICE PRODUCTS ASSOCIATION

In the above-referenced investigation, the Commission is endeavoring to provide advice to the U.S. Trade Representative ("USTR") on the "probable economic effects on U.S. industries and consumers of modification of U.S. tariffs." Orange, grapefruit and other citrus juices, both concentrated and single-strength (HTSUS subheadings 2009.11.00, 2009.19.20, 2009.19.40, 2009.20.20, 2009.20.40, 2009.30.40 and 2009.30.60), are among the tariff items for which the USTR has asked for the Commission's advice.

In testimony presented at the Commission's hearings in Atlanta, Georgia and Chicago, Illinois in connection with this investigation, the Milk Industry Foundation ("MIF"), a trade association representing dairies and other firms whose operations include the packaging and sale of single-strength fruit juices from concentrate, and one of its members, Dean Foods, recommended that the current 35 cents per gallon (9.25 cents per liter) duty on frozen concentrated orange juice ("FCOJ") 1/ be reduced by 50 percent in the ongoing Uruguay Round of Multilateral Trade Negotiations -- the full amount permitted by statute. The MIF's basic argument is that the FCOJ duty, at its current levels, has stifled U.S. consumer demand, and that a reduction of the duty would cause the FCOJ market to grow significantly, to the benefit of U.S. orange growers, juice processors and American consumers.

In prehearing briefs and testimony presented at the Commission's Washington, D.C. hearing on April 3, 1989, representatives of the Florida citrus industry led by the Florida Department of Citrus ("Department of Citrus") and Florida Citrus Mutual ("FCM"), the largest grower cooperative in the state, strongly opposed the MIF's proposal, indicating as well their opposition to duty reductions on grapefruit and other citrus juices and various fresh citrus fruits. FCM and the Department of Citrus pointed out that a tariff reduction on FCOJ of the magnitude suggested by the MIF would threaten the competitive health of the U.S. orange juice industry -- both growers and processors alike -- while providing only minimal benefits to consumers, and then only in the short term. Support for this view also came from the California-Arizona Citrus League ("CACL"), which represents farmer cooperatives and independent shippers marketing over 90 percent of the citrus grown in California and Arizona.

The National Juice Products Association ("NJPA" or "Association"), a national trade association representing 74 companies engaged in extracting, processing or packing fruit juice, concurs with the views expressed by these other representatives of the U.S. orange juice industry. 2/ NJPA's members account, in the aggregate, for virtually all of the retail orange juice products packed in the United States. It also represents all of the major U.S. producers and wholesalers of bulk FCOJ, the essential

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1/ By Food and Drug Administration standard of identity, virtually all of the orange juice concentrate imported into the United States is "concentrated orange juice for manufacturing" ("COJFM"). This product is often referred to as "frozen concentrated orange juice" ("FCOJ"), a term that covers retail frozen concentrate. In this submission, the term FCOJ will be used for all concentrated orange juice products.

2/ This position, as elaborated herein, was approved by a majority of NJPA's regular membership, as required by the Association's bylaws.

raw material used by retail processors. The Association believes that the health of the U.S. juice processing industry would be seriously undermined by any reduction in the current U.S. duty on FCOJ. 3/

In opposing any reduction in the current tariff on FCOJ, NJPA is speaking as an association representing the largest wholesale and retail processors of orange juice in the United States. Accordingly, the views offered here will focus primarily on the impact that any reduction in the duty would have upon processors as such. At the same time, however, many of NJPA's processor members are also growers of oranges (or maintain close or longstanding relationships with growers) as well as importers of foreign-origin FCOJ. Indeed, because U.S. retail demand for orange juice now exceeds available U.S. supply -- in large part because of a series of freezes that ravaged the Florida orange crop in the early 1980s -- the processor relying exclusively on U.S.-origin juice (whether the product of its own groves or purchased) is today the exception, rather than the rule. Much of the retail FCOJ and reconstituted orange juice packed in the United States today is a blend of U.S. and foreign-origin juice. Accordingly, foreign and domestic supplies of bulk FCOJ are both critical to the processing industry's competitive health. The Association believes that the current competitive balance between imports and domestic-origin juice should be preserved by maintaining the present duty regime.

As the Commission is aware, NJPA actively opposed the antidumping petition filed in early 1987 by FCM and several individual processing firms. NJPA's major contention in that proceeding, on the merits, was that, at the time of that proceeding, neither domestic processors nor U.S. growers were materially injured or threatened with material injury by reason of alleged less-than-fair-value ("LTFV") imports of bulk FCOJ from Brazil. That position is entirely consistent with NJPA's position in this proceeding. NJPA's view that imports from Brazil were not injuring the U.S. orange juice industry was and remains predicated on maintenance of the current duty structure. On the other hand, NJPA believes that the entire industry -- both growers and processors alike -- would face a very serious threat of future injury if the current 35 cents per gallon duty were reduced by half. Such a drastic reduction in the prevailing duty would totally upset the current competitive balance between imported FCOJ and domestically-grown juice and severely prejudice the operations of U.S. orange juice processors.

The U.S. orange juice industry is unique in a number of respects. Although oranges have been grown and orange juice consumed all over the world for centuries, the processing of orange juice in high volume and on a year-round basis was the creation of U.S. citrus growers, who developed the technique for processing FCOJ in the 1940s. This technological breakthrough put orange groves all over the state of Florida (and in portions of southern Texas, Arizona and California blessed with similar climatic conditions) and orange juice on virtually every American's table. But despite this success, the U.S. orange juice industry remains a uniquely fragile segment of the U.S. agricultural sector. No other major farming industry is as limited geographically. Nor is any other U.S. agricultural industry so susceptible to the vagaries of the weather. When orange trees are exposed to frost, oranges still on the tree may be damaged or entirely destroyed; blossoms may be damaged, thereby reducing next year's crop; or the trees themselves can be killed. If the last occurs, trees must be replanted and will not bear fruit for four or five years and will only reach peak production seven years after that. While other U.S. agricultural sectors (e.g., apples, grapes) require similar long-term investments and large capital outlays, only orange growers are regularly faced with the prospect of having to make such large investments after only a few days of frost.

The U.S. citrus industry, therefore, is different in kind from other U.S. agricultural industries. It requires significant tariff protection if it is to survive. The current specific duty of 35 cents per gallon is indeed substantial, but as a specific duty, it has its greatest impact when market prices are lowest (i.e., when U.S. production is at a peak), thereby giving U.S. orange growers the return necessary for future investment during "off" years. During those times of low U.S. production -- most importantly, during times of severe freezes -- the duty has less of an impact, as prevailing market and f.o.b. import prices will ordinarily be relatively high. This ensures that there will be an adequate supply of foreign-origin FCOJ to supplement reduced U.S. production. The duty thereby ensures that U.S. orange juice processors have access to an adequate supply of their basic raw material and that consumers will continue to be provided with retail

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3/ While the issues will not be expressly addressed herein, NJPA also concurs with FCM's, the Department of Citrus', and CACL's views opposing tariff reductions for single-strength orange juice, concentrated and unconcentrated grapefruit and other citrus juices, and fresh citrus.

their basic raw material and that consumers will continue to be provided with retail orange juice products at reasonable cost.

The proposal for a significant reduction in FCOJ tariffs is particularly ill-timed. During the 1980s, four major freezes in a six-year period left the industry in a vulnerable position, one precarious enough that a majority of the Commission found that dumped imports from Brazil were a cause of material injury or a threat of future injury to the industry. 4/ Indeed, even those commissioners who did not find injury by reason of LTFV sales acknowledged that the industry had been severely injured by the freezes in the early 1980's. 5/ As pointed out in the Department of Citrus submission, the Florida industry is trying to reinvest and rebuild grover acreage devastated by nature. During this attempt to recover from nature's ravages, a reduction in the tariffs -- even in stages -- would threaten the future stability of the entire U.S. industry.

I. REDUCING THE TARIFF WOULD HARM U.S. JUICE PROCESSORS

As noted above, most U.S. juice processors either own groves themselves or maintain close and longstanding relationships with U.S. orange growers, yet virtually all U.S. processors have been forced to import some FCOJ because of supply constraints resulting from periodic freezes. Under the current duty regime, domestic and import supply are in rough equilibrium. Any reduction in the tariff would destroy that equilibrium in favor of foreign suppliers of FCOJ. This would harm U.S orange juice processors, first, by lowering U.S. wholesale prices for bulk FCOJ, and second, by harming growers and thereby reducing processors' domestic source of supply.

A. Bulk Processors Would Be Harmed Directly by Lower U.S. Wholesale Prices

The Florida Department of Citrus has calculated, based on a simultaneous equation model, that a 50 percent reduction in the U.S. tariff on FCOJ would lead to an immediate increase in FCOJ imports of 20 million single-strength-equivalent ("SSE") gallons and a reduction in the wholesale price of bulk FCOJ of 11 cents per SSE gallon. This 11 cent price reduction amounts to six percent of the prevailing 1987-88 wholesale price for bulk FCOJ of $1.82 per SSE gallon. Wholesale price reductions of a similar magnitude would presumably continue in the years following the tariff reduction.

More than two dozen Florida-based processors are "extractors" producing bulk FCOJ. Some of these bulk processors use this FCOJ themselves to process retail orange juice products, while others sell their production to other U.S. processors. These bulk processors are a critical link between growers and processors of retail orange juice products.

Nevertheless, the ITC found in its April 1987 final injury determination in the antidumping investigation of FCOJ from Brazil that corporate extractors were the least profitable segment of the U.S. orange juice industry; indeed, between 1983 and 1986, these bulk FCOJ producers registered an operating profit -- a modest 2.6 percent

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4/ Commissioners Eckes and Lodwick found the industry's weakened condition commenced with severe freezes in Florida and Texas, which at the time of their determination had occurred in four of the last six crop years. Frozen Concentrated Orange Juice from Brazil, Inv. No. 731-TA-326 (Final), USITC Pub. 1970 (April 1987) at 17, 23. As a result, growers lost both oranges and orange trees. Efforts to replant these orange trees were, moreover, hampered by the destruction of a great number of orange trees in nurseries because of the presence of citrus canker. Id. at 17. Even though production of both oranges and bulk FCOJ had been increasing during the period of investigation, the commissioners found the industry was still experiencing difficultires because profitability, prices, and employment were down. Id. at 23-24. They concluded, therefore, that the industry continued to be in a vulnerable position vis-a-vis less-than-fair imports. Id. at 24.

Commissioner Rohr found that the industry was experiencing material injury by reason of less-than-fair-value imports. Id. at 31. He noted that "while it would be unfair to attribute to the Brazilian imports the adverse impact that the recent series of freezes has had on the industry, it would similarly be unfair if I did not recognize that the freezes have left the industry in a more precarious and vulnerable position than it otherwise might have been in." Id.

5/ See Id. at 72-73 (views of Chariman Liebeler); 98-99 (views of Vice Chairman Brunsdale).

-- in only one year (1984). Obviously, companies with such levels of operating profitability will have great difficulty in absorbing price reductions of the magnitude likely to be caused by a 50 percent reduction in the FCOJ tariff.

Ultimately, sustained wholesale price reductions for bulk FCOJ might well force bulk processors to desert the "merchant" business entirely, leaving U.S. processors of retail orange juice products who do not themselves own groves totally dependent upon foreign sources of supply. This would make the U.S. orange juice processing industry far less "integrated" than it is today.

B. Lowering the Tariff Would Harm U.S. Orange Growers

In its brief, the Florida Department of Citrus demonstrates that the increase in FCOJ imports and associated wholesale price declines stimulated by a reduction in the FCOJ tariff would, in short order, be passed down to U.S. orange growers. Specifically, the Department of Citrus calculates that the 11 cent per SSE gallon drop in the U.S. bulk FCOJ price would force bulk processors to pay U.S. orange growers on-tree prices of only $6.06 per box, 60 cents (or nine percent) below the 1987-88 rate of $6.66 cents per box. Based on an estimated production level of 166 million boxes in the first year following a tariff reduction, the Department of Citrus estimates that grower returns would decline by $100 million in that year alone. Cumulative reductions in on-tree revenues to growers would be expected to amount to more than $3 billion in the 20 years following a 50 percent tariff reduction.

As the Department of Citrus' submission describes in further detail, these reduced grower revenues will gradually lead to a scaling-back of U.S. citrus production. The Department of Citrus estimates that more than 40,000 acres of Florida groves will be taken out of production over the two decades following a 50 percent tariff reduction. Growers with an expectation of reduced import price levels will be less willing to make the types of substantial investments they have in the past to replant after bouts with frost and disease. The result will be fewer domestically-grown oranges and less domestic-origin bulk FCOJ for use by U.S. processors.

Although the reduction in the quantity of U.S.-grown oranges is of great concern to U.S. processors, the industry is equally, if not more, concerned about a decline in the quality of U.S.-grown fruit. Even if U.S. growers maintain their acreage levels despite falling on-tree prices, reduced revenues will inevitably force them to reduce ongoing operating expenses, including fertilization, disease control and irrigation. As a result, the fruit on those trees kept in production will be of reduced quality. U.S. orange juice processors will lose their traditional source for premium fruit -- Florida and other U.S. growing areas.

U.S. orange juice processors need a dependable domestic source of supply in order to maintain adequate price competition and preserve existing quality levels. The preservation of high-quality U.S.-grown fruit is particularly important in light of the increasing share of the U.S. orange juice market being captured by "premium" (i.e., not-from-concentrate type) juices, which are necessarily produced from U.S.-grown round oranges. For nearly two decades, sales of chilled or ready-to-serve juice have been rising. 6/ Chilled orange juice purchases have surpassed sales of retail frozen concentrate for the past three consecutive years and represented 54.8 percent of the total orange juice market in 1988. 7/ Moreover, within the chilled market, not-from-concentrate juice is occupying an ever-increasing role; in 1988, for example, not-from-concentrate orange juice took a 29.5 percent share of chilled sales, 40 percent above the 21.1 percent share registered in 1987. 8/ As a result, only 70-75 percent of total U.S. orange production will likely go into concentrate this year -- a drop of several percentage points over previous years -- as more orange production is devoted to premium, not-from-concentrate orange juice products. 9/

For all of these reasons, U.S. orange juice processors -- whether they own groves themselves or not -- are concerned about the negative effect that a tariff reduction would have upon U.S. orange growers. Orange groves in Florida and other

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6/ Frozen Food Age, February 1989, at 44.

7/ Id.

8/ Id. at 56.

9/ Id.

areas of the United States have always been the heart of the U.S. orange juice processing industry. Processors continue to have an interest in having as much high-quality U.S. orange production as nature will allow. The existing 35 cents per gallon tariff has helped to maximize production of high-quality U.S.-grown fruit. NJPA believes, therefore, that maintenance of the tariff is in the best interests of the U.S. orange juice processing industry as a whole.

II. LOWERING THE ORANGE JUICE TARIFF WOULD NOT BENEFIT U.S. CONSUMERS

The MIF has suggested in its submissions to the Commission that a reduction in the FCOJ tariff would yield significant benefits for consumers, based on an expectation that a reduction in the tariff would be fully passed on to consumers through lower retail prices. The association has also suggested that price declines accompanying a tariff cut would create greater than proportional increases in retail demand. As the Florida Department of Citrus brief notes, however, these arguments assume -- incorrectly -- that a lower FCOJ tariff would necessarily result in lower retail prices. The Department finds no empirical support for the claim that retail FCOJ prices would decline significantly as a result of a tariff reduction, nor for the assertion that consumers would reap significant benefits.

A. In the Short Term, Consumers Would Realize Only Little, If Any, Benefit

The Florida Department of Citrus has determined that, in the short-term, only a portion of any reduction in the FCOJ tariff would be passed on to consumers in the form of lower retail prices. The Department has calculated that even a maximum tariff reduction of 50 percent would only reduce retail prices by about 11 cents per SSE gallon, or about 2.8 percent of the 1987-88 average retail price, in the first year following the tariff cut. Consumption would also be expected to increase, but by less than a proportionate amount. The Department estimates this increase to amount to only about 1.6 percent of the 1987-88 U.S. consumption level.

The MIF has also suggested that the present tariff level has kept orange juice prices higher than they should be, and that this results in lower retail consumption. Again, the Florida Department of Citrus has found no empirical or theoretical support for this argument. Indeed, the Department's brief shows that U.S. orange juice consumption has increased dramatically, from 0.6 gallons per capita in 1948 to 4.7 gallons in 1987. During this time of growth, the U.S. FCOJ tariff has remained at the rate currently in effect. Furthermore, about 83 percent of households nationwide are presently drinking orange juice, and consumption is high over all income levels. Even lower income (under $25,000 annually) households have a high consumption rate of 78 percent. It is difficult to see, therefore, how even a 50 percent tariff reduction could significantly improve U.S. consumption levels, which have grown and remained high notwithstanding the present duty rate.

Contrary to MIF's claims, therefore, in the short-term following reduction of U.S. FCOJ tariffs, consumers would likely receive little, if any benefit.

B. In the Long Term, Lowering the Orange Juice Tariff Would Make U.S. Consumers More Vulnerable to Anticompetitive Pricing by Brazilian Processors

As the Florida Department of Citrus notes in its brief, Brazil virtually monopolizes world trade in FCOJ today, accounting for more than 80 percent of global exports and re-exports. Because Brazil's processing industry is highly concentrated, with its three largest firms comprising over 80 percent of that country's exports in 1987, these three companies account for 64 percent of the world's exports of FCOJ. In contrast, the United States processor industry is considerably less concentrated; there are more than two dozen processors in Florida alone.

Brazilian processors also possess a high degree of monopsonistic 10/ power as purchasers of oranges from Brazilian growers. Brazilian processors possess the power to extract significant price concessions from Brazilian growers, and are presently doing so. Indeed, if one examines the various costs deducted from the futures price under the formula used to determine Brazilian grower compensation, and compares them to Florida

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10/ Pure monopsony refers to a market in which only a single buyer participates. See Samuelson & Nordhaus, Economics 643 (12th ed. 1985).

Department of Citrus estimates of Florida processing costs, it is apparent that the Brazilian formula includes a rather liberal measure of cost. To the extent that the reduction in tariffs will provide Brazilian processors with increased world market power, the processors' bargaining power vis-a-vis growers will be increased as well.

As a result of the monopolistic structure of the world FCOJ product market, it is highly unlikely that U.S. consumers would benefit much, if at all, from a tariff reduction. It is also unlikely that Brazilian growers would gain much from a reduction in the U.S. tariff, given the monopsonistic nature of the relationship between Brazilian growers and processors. Thus, only the few Brazilian processing firms that dominate the world FCOJ market would see any major benefit from such a reduction. A duty reduction would, in effect, transfer funds from the United States Treasury directly into the coffers of three Brazilian processing companies.

The more the U.S. duty is reduced, the greater the opportunity the very large Brazilian processors will have to engage in predatory pricing. Over time, continued price undercutting would inevitably lead to the demise of U.S. growers and processors, who would not be able to match Brazilian prices and generate sufficient revenue to remain in business. At some point, Brazil's share of the U.S. market would rise to a level allowing it to raise prices to monopoly price levels. By that stage, the price competition that now characterizes the U.S. orange juice retail market would have disappeared. U.S. consumers will, in the short run, probably not win; but they will, in the long run, very definitely lose.

III. CONCLUSION

The Milk Industry Foundation's arguments for a reduction in the U.S. FCOJ tariff reflect an inadequate understanding of the important interrelationships that exist between the various segments of the U.S. orange juice processing industry. The present FCOJ duty, contrary to MIF's claim, has not stifled U.S. consumer demand but has rather permitted U.S. processors to supply this very price-sensitive market with high-quality and reasonably-priced retail orange juice products. The duty has allowed processors to make use of imported FCOJ when U.S. orange production has been inadequate to service demand, but it has also allowed U.S. growers to realize reasonable rates of return during peak production years. A reduction in the tariff would dismantle a very delicate market balance upon which domestic growers and processors depend for their survival. A tariff reduction would benefit U.S. consumers little, if at all, during the short-term, and over several years would result in Brazilian processors' dominance of the FCOJ market -- a losing proposition for U.S. consumers, growers, and juice processors alike.

NJPA therefore respectfully urges the Commission to recommend that the present tariff on imports of FCOJ be maintained.

Respectfully submitted,

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April 13, 1989

STATEMENT OF THE WOOL MANUFACTURERS COUNCIL, NORTHERN TEXTILE ASSOCIATION
SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS

INTRODUCTION

This statement is presented by the Wool Manufacturers Council of the Northern Textile Association. The Council represents approximately 80 percent of America's domestic woolen fabric manufacturing industry. Established in 1854, the Northern Textile Association is a trade association which represents six specialized segments of the textile industry and over 125 textile mills.

The purpose of this statement is to provide the Committee with information about America's wool textile manufacturing industry and to convey the concerns of that industry with respect to possible modifications of existing tariff levels.

DESCRIPTION OF INDUSTRY

The wool industry in the United States consists of wool growers and processors, yarn spinners, commission weavers, knitters, and integrated fabric mills utilizing the woolen and worsted systems. Woolen mills tend to be located in the Northeastern region of the United States although at least 16 different states have wool textile manufacturing operations.*

Although wool textile manufacturing tends to be regionally concentrated, related industries such as sheep raising for wool production, cut-and-sew operations for apparel production, textile machinery and parts manufacture, and production of textile dyes, chemicals, and synthetic fibers, can be found in almost every state.

The members of the Wool Manufacturers Council produce a wide range of products using different manufacturing processes, fibers, and finishes. These textile products have numerous applications including apparel, upholstery, contract furniture, wallcoverings, household, industrial, military, medical products, engineering products, and various other end uses. A majority of the members of the Council can be described as "vertical operations", where the manufacturing process starts with raw wool fiber and includes all intermediary steps necessary to produce finished wool fabric which we sell into many of the markets described above. Integrated manufacturing operations dominate the wool textile business although some companies are involved in only the spinning of yarn or the weaving of fabric.

Woolen textile mills in New England and nationally tend to be small or medium sized. Large woolen mills typically employ about 1,000 workers while smaller and medium sized plants provide employment for between 100 and 500 people. Although some wool mills are part of larger publicly owned companies, most of them are independently owned, frequently family run operations. In the rural communities where these mills are usually located they often constitute a high proportion of local employment and they can be a dominant economic force.

The woolen or worsted system of manufacturing fabric is different from the system used in cotton and man-made fiber textile mills. Most of the members of the Wool Manufacturers Council manufacture on the woolen system for end markets such as outerwear, blankets, upholstery fabrics, and varied apparel applications. Cotton system textile mills, and those designed to run 100 percent synthetics and blends, cannot spin, weave, dye or finish wool effectively. The woolen system, however, is versatile and can handle other fibers. When a woolen system runs entirely on synthetics, it is difficult for it to be competitive with cotton-synthetic system mills because of the nature of the machinery and processing. Woolen system manufacturers are, therefore, wedded to wool or blends that are predominantly wool.

*Georgia, Oregon, Washington, Virginia, and North Carolina also produce significant quantities of wool textile products.

STATEMENT OF POSITION

The Wool Manufacturers Council of the Northern Textile Association strongly opposes any reductions on tariffs currently imposed on wool or wool blend apparel, fabric, or yarn.

A SUMMARY OF THE REASONS WHY EXISTING TARIFF LEVELS SHOULD BE MAINTAINED

1) IMPORT EXPLOSION: In 1980 129 million square yard equivalents (SYE) of wool fabric,, yarn, apparel, and made-up and miscellaneous items were imported into the American market. By 1988 imports had increased 99 percent to reach 257.2 million SYE. The American market for wool textile and apparel products has almost doubled since 1980 but the major portion of this increased market has been taken over by low-cost imports. Most of these imports have been in the form of garments which are heavily labor intensive.

2) PROLIFERATION OF SHIPPERS: In 1980 only 16 nations shipped more than 1 million SYE of wool products into the American market. In 1986 more than 41 countries shipped in excess of 1 million SYE.

3) AN INDUSTRY IN DECLINE: In 1955 there were more than 200 wool textile mills employing 67,000 workers in the United States. In 1988 there were fewer than 50 manufacturers of woolen and worsted fabrics and yarns and they employ fewer than 20,000 workers.* Only 25 of these remaining companies are integrated manufacturers of significant quantities of woolen or worsted fabrics.

4) LOSS OF MARKET SHARE DESPITE LARGE INCREASES IN PRODUCTIVITY: During the past 10 years, woolen fabric manufacturing companies have invested more than $350 million in state-of-the-art machinery and advanced manufacturing processes. This investment has resulted in substantial productivity increases. Despite this determined effort, domestic woolen mills continue to lose market share to foreign suppliers. Productivity increases for the American textile industry as a whole have exceeded the American all -manufacturing average for productivity increases since 1979.

5) A NATIONAL SECURITY PROBLEM DEVELOPING: Studies conducted by the U.S. House of Representatives Armed Services Committee and the Department of Defense indicate that the erosion of America's textile and apparel industrial base is having a serious negative impact on the nation's defense capabilities. A study by the Defense Logistics Agency indicates that three of seven items which would not meet mobilization requirements during a major conflict would be wool textile products. No synthetic fiber producer has ever developed a product having the same characteristics as wool.

6) A CLASSIC CASE STUDY OF UNFAIR COMPETITION: Despite considerable investments in more efficient machinery and corresponding increases in productivity, American wool mills continue to shut down. Wage differentials, widespread fraud and mislabeling of imported wool and wool blend products, direct investment subsidies by foreign governments, wide disparities in the costs of environmental and worker safety compliance for mills, lack of labor rights in major competitor nations, direct foreign government intervention in the international wool markets, these and other factors work to construct an international playing field for trade in wool products which is dramatically tilted against American manufacturers.

IMPORTS OF WOOL PRODUCTS

Analysis of U.S. government supplied data regarding imports of wool products indicates that the American market for wool products is being overrun by imports. In 1974 total American imports of woolen yarn, fabric, apparel, and made-up and miscellaneous items were 86.1 million square yard equivalents (SYE). In 1988 total imports of these goods reached 257.2 million SYE, a 199 percent increase during a 14 year period.

*employment data from U.S. Department of Labor, Bureau of Labor Statistics.

WOOL PRODUCT IMPORTS 1980 AND 1988 (millions of square yard equivalents)

WOOL PRODUCT	1980	1988*	%CHANGE
Tops and Yarns:	7.3	27.5	+ 276 %
Fabrics:	18.4	40.9	+ 122 %
Apparel:	93.5	165.6	+ 77 %
Made-Up & Miscellaneous:	10.2	23.2	+ 127 %
Total:	129.4	257.2	+ 99 %

* U.S. Census Bureau Data, all figures are annualized based on January-November 1988 information.

The American market for wool textile and apparel products has almost doubled since 1980 but the major portion of this increased market has been taken over by low-cost imports. In 1988 import penetration in the wool textile and and apparel market was approximately 65 percent. In 1976 import penetration was 51 percent.

A PROLIFERATION OF SHIPPERS TO THE AMERICAN MARKET

Domestic woolen mills are extremely concerned about the proliferation of countries which now ship substantial quantities of wool and wool-blend products to the American market. In 1980 16 different countries shipped more than 1 million square yard equivalents (SYE) of wool products to the American market. During 1986, 41 different countries shipped more than 1 million SYE of wool products into the American market.

While Italy is a dominant supplier of wool yarns and fabrics to the American market the remainder of imported goods are shipped by many nations. This situation combines with unfilled quotas by many of the countries now exporting wool products to create considerable opportunity for an acceleration of the import explosion.

AN INDUSTRY IN DECLINE

The wool textile industry has endured a long and steep decline during the post World War II period. Changes in consumer preference toward synthetic fibers are relevant to this decline but the impact of overseas competition has devoured renewed consumer demand for wool products. According to a 1975 study by the Northern Textile Association 274 New England based woolen and worsted textile mills ceased operation during the 1949-1974 period. These mills once employed 92,000 New England workers.

A 1988 Northern Textile Association study documented 24 woolen or worsted textile mill closings during the 1975-1987 period. Since 1975 woolen mills have been going out of business at a rate of almost two per year. In 1955 there were more than 200 wool textile mills employing 55,000 workers in the United States. According to the most recent Bureau of Labor Statistics information the American wool industry employs only 19,400 workers. Today there are only 25 integrated woolen mills which manufacture significant quantities of woolen or worsted fabric.

Wool textile manufacturing, like textile manufacturing in general, tends to be based primarily in rural areas. Woolen mill closings frequently have a profound and adverse effect on the economy and population of their host town. This is especially true when the host town is small and employment opportunities for laid off workers are limited.

LOSS OF MARKET SHARE DESPITE LARGE INCREASES IN PRODUCTIVITY

Like their counterparts in all segments of the textile industry, wool manufacturers have made substantial capital investments in advanced machinery and manufacturing processes which has resulted in rapid increases in productivity. During the past 10 years woolen fabric manufacturing companies have invested more than $350 million as part of an effort to remain competitive. For the past ten years the textile industry as a whole has invested an average of $1.6 billion annually in new plants and equipment. According to the American Textile Manufacturers Institute, textile companies have on average, invested about 80 percent of their retained cash flow in modernization programs and increased efficiency. During every year since 1979 the American textile industry has had productivity growth which exceeded the all manufacturing average.

A NATIONAL SECURITY PROBLEM DEVELOPING

According to a report prepared by the Defense Logistics Agency and dated April 23, 1986, "diminishing sources in the textile industry have seriously affected the production base since fiscal year 1984. This is evident by the many plant closings, reorganizations, and elimination of costly finishing capability." Accordinng to the report, textile industry plant closings, "show a serious trend toward a reduction of the overall domestic textile weaving and finishing capability. This trend has been reported as directly related to the loss of business to foreign competition."

According to the DLA report three of the seven textile items which would not meet mobilization requirements for FY 1986 were wool textile products. These included, wool blankets, type I, grade B, 66 inches by 84 inches, and flannel, wool/nylon, 16 ounces,56 inches, and melton wool, Type II, 22 ounces, 56 inches. The report went on to indicate that the supply of overcoats, dress coats, and trouses, could be jeopardized during a surge/mobilization situation because of the increase in new recruits.

Colonel Kenneth W. Shedd, U.S. Air Force Chief of Clothing, recently stated, "if our nation should be faced with another conflict... wool will be as important then as it has been in the past. The development of modern aircraft and sophisticated equipment will never negate the need for the personal protection and comfort that wool can provide." Senator John Tower, Chairman of the Senate Armed Services Committee, described wool as, "vital to our nation's armed forces". Senator Tower stated that, "a domestic supply is essential".

The importance of wool products during prolonged conflict situations has been demonstrated throughout history. During 1938 and 1939 many American textile mills operated at full capacity to supply French and English wool product needs. When German forces on the Eastern front were caught in early winter weather during their campaign to reach Moscow they lacked adequate wool clothing and wool blankets. This situation worked to the distinct advantage of allied forces. According to New Scientist Magazine British forces fighting in the Falkland Islands endured undue hardship because they lacked cold weather uniforms made of wool. They were also subjected to increased danger during fire-fighting situations because their synthetic fiber uniforms were prone to melting during high temperature environments.

According to studies conducted by the U.S. House of Representatives Armed Services Committee, and the Department of Defense, the gradual erosion of America's textile and apparel industrial base is having a serious negative impact on the nation's defense capabilities. The Armed Services Committee report indicates that continued "decline of the industrial base supplying apparel and related textile products will seriously impact the United States ability to quickly mobilize a large military force." A 1986 Department of Defense (DOD) study noted that 15 textile plants which had been supplying the military either were closed or production was shifted to other products. The same study also cited the loss of 80 sewing plants which formerly were available to work on military orders.

The U.S. Congress recognized wool as an essential strategic commodity when it passed the Wool Act of 1954. During 1954 157 million pounds of wool were grown in the United States. In 1987 only 87 million pounds of wool were grown domestically. During peacetime raw wool can easily be imported but during a conflict situation foreign supplies couldbe difficult to obtain. Although American military forces retain a reserve supply of wool blankets and apparel items this supply could quickly diminish during a large scale conflict.

Domestic raw wool production and domestic wool fabric and wool apparel production should be maintained at current or previous levels so that the interests of American military forces can be secured during a prolonged large scale conflict. The trend toward increased reliance on overseas producers of wool textile and apparel products could create future problems for America's armed forces.

WOOL TARIFFS A HISTORICAL REVIEW

In the 1950's the Tariff Commission and the U.S. Government recognized the severity of the international trade problems of the domestic wool textile industry and negotiated higher tariff rates, particularly on the lower valued fabrics. This action did little to stymie increasing imports from the low-wage nations of East Asia.

A major problem for domestic woolen mills has been imports of low-cost Italian wool fabrics in blend with a variety of other fibers. There are several examples throughout the 1960's of attempts to plug loopholes through which these fabrics entered the country at lower than chief value wool duties. Through skillful manipulation of blends, frequently using recycled fibers, importers have been able to continually evade wool fabric duties and sell these low-priced products in the American market. This problem is compounded by the fact that these fabrics, and garments made from them, are frequently mislabeled as to wool content. This is in violation of the Wool Products Labeling Act of 1939.

The problem of unwarranted tariff reductions on wool-blend fabrics originated during the Kennedy Round trade negotiations and worsened during the Tokyo Round. The end result of this series of events was that a particular class of fabrics which are wool like in appearance and which compete directly with domestically produced wool fabrics have undergone substantial tariff reductions since 1968. American wool mills lost most of the misses and junior low-end wool product markets when a 1969 negotiating mistake resulted in a situation where products containing over 17 percent wool but of chief value man-made fiber were allowed into the American market under non-wool classifications. This has seriously disrupted the U.S. market and continues to adversely affect American mills.

A CLASSIC CASE OF UNFAIR COMPETITION

The Wool Manufacturers Council believes that an examination of facts related to the conditions of trade in textiles generally, and wool products specifically, lends validity to the preponderant opinion among wool manufacturers that they are frequently victims of unfair practices and unequal terms of trade.

- Wages at American wool mills average $7.00-9.00 per hour, substantially more than the average wage in most nations which export wool products to the American market. Worker unionization rights are almost uniformly denied in the nations which have recently penetrated the American wool products market.

- Costs of environmental and worker health and safety compliance for American wool mills far exceed similar costs in competitor nations. In many of the newly industrializing countries such costs are either negligible or considerably less. Many American woolen mills have financed almost singlehandedly the construction and operating costs of the Publicly Owned Treatment Works to which they discharge wastewater. Some members of the Wool Manufacturers Council are prohibited from using less expensive chrome containing dyes because of strict environmental regulations but such dyes are frequently used by overseas competitors.

- Fraud and mislabeling of imported wool and wool-blend products is widespread according to a U.S. Customs Service study. Research conducted by the Wool Manufacturers Council and the Camel Hair and Cashmere Institute of America substantiates this fact. Penetration of the American market with counterfeit and mislabeled goods undercuts the ability of American mills to compete fairly.

- Direct investment subsidies in wool manufacturing by foreign governments are common. In 1986 and 1987 the Chinese government forcefully entered the international raw wool markets. The direct result was a 40-80 percent increase in the price of raw wool for American mills.

- When restraint or quota agreements limit individual country exports of wool products to the American market affected nations frequently transship the goods through a third country whose exports are unrestrained. Unfortunately the U.S. Customs Service does not have the resources to increase enforcement against these illegal shipments which contribute to market disruption.

- The accessibility of the American market for wool products is easily discerned by an examination of the import statistics. According to a 1988 study by Alan Wm. Wolff, a former Deputy U.S. Trade Representative, most foreign textile markets are more heavily protected than the U.S. and in many markets textile and apparel imports are banned altogether. Although they have made concerted efforts, members of the Wool Manufacturers Council have had almost no success in exporting products to Pacific-rim nations even though in many instances they were price competitive.

CONCLUSION

Wool product imports have disrupted the American market despite existing tariff protection. Any reduction of current tariff levels could reduce this industry to a size smaller than the "critical mass" necessary to sustain the industry in a cost effective manner. A specialized industry like wool manufacturing requires an infrastructure comprised of skilled workers, available machinery and parts, manufacturing expertise, industry suppliers, and a visible distribution network and customer base. Tariff cuts in the wool product sector could push the industry past the "critical mass" survival point for American wool manufacturing.

American manufacturers of wool yarns and fabrics have invested in modern machinery and advanced manufacturing processes and this has resulted in considerable increases in productivity. These investments have been made with the understanding that existing tariff protection would continue and the U.S. government would continue to limit growth in restraints on wool product imports to 1 percent annually. In 1980 President Reagan made a commitment to relate the growth of imports to growth of the domestic market. By 1987, imports of textiles and apparel had almost tripled while the U.S. market had scarcely grown at all.

Reductions in current tariffs covering wool and wool-blend textile and apparel products will have the predictable effect of causing more wool textile mill closings, more losses of manufacturing jobs for U.S. workers, and fewer domestic sources for textile products which are important to the American apparel industry and essential for national defense. Such an action would constitute a deliberate effort to dismantle an important part of the American industrial base and would perhaps erase permanently a facet of America's industrial history which dates to colonial times.

The Wool Manufacturers Council of the Northern Textile Association recommends that all tariffs covering wool and wool-blend textile and apparel products be maintained at their current levels.